

Report of the auditor-general to Limpopo provincial legislature and the council of Waterberg District Municipality

Report on the audit of the consolidated and separate financial statements

Qualified opinion

1. I have audited the consolidated and separate financial statements of the Waterberg District Municipality and its municipal entity set out on pages ... to ..., which comprise the consolidated and separate statement of financial position as at 30 June 2017, and the consolidated and separate 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 consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matter described in the basis of qualified opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the municipality and its entity as at 30 June 2017, and their financial performance and cash flows for the year then ended in accordance with South African standard of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa (Act No. 56 of 2003) (MFMA) and Division Of Revenue Act of South Africa (Act No.3 of 2016) (DORA).

Basis for qualified opinion

Irregular expenditure

3. In terms of section 170 of the MFMA, only the National Treasury may condone non-compliance with a regulation issued in terms of the MFMA or a condition imposed by the Act itself. Contrary to the above, the municipal council condoned prior years' irregular expenditure amounting to R12 785 324, which was incurred in contravention of MFMA and Municipal Supply Chain Management Regulations. The condoned irregular expenditure disclosed as per note 33 in the consolidated financial statements misstated the disclosure of the total irregular expenditure of R7 196 315.
4. The municipality did not completely identify, investigate and disclose all the irregular expenditure incurred in the prior year. I identified additional irregular expenditure amounting to R982 625 in the year under review which relates to the prior year. Consequently, I was not able to determine the full extent of the understatement of the closing balance of irregular expenditure amounting to R12 785 324, disclosed as per note 33 to the consolidated financial statements.

Cash flow statement

5. *GRAP 2, Cash flow statements*, requires that the municipality summarises the entity's operating, investing and financing activities. The municipality did not prepare and present its cash flow statement in accordance with GRAP 2 as differences were identified.

Consequently, the financial statements were materially misstated due to material uncorrected misstatements in the following item disclosed in the cash flow statement:

- Net cash flow from operating activities included a difference of R2 996 727

Context for the opinion

6. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the consolidated and separate financial statements section of my report.
7. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Irregular expenditure

10. As disclosed in note 33 to the consolidated financial statements, irregular expenditure to the amount of R7 196 315 was incurred in the current year, as a proper tender process had not been followed.

Unauthorised expenditure

11. As disclosed in note 34 to the consolidated financial statements, unauthorised expenditure to the amount of R264 645 was incurred, as municipality overspent on one of its votes.

Other matter

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

Unaudited supplementary schedules

13. The supplementary information set out on pages x to x does not form part of the consolidated and separate financial statements and is presented as additional information. I have not audited these schedule(s) and, accordingly, I do not express an opinion thereon

Responsibilities of accounting officer for the financial statements

14. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with SA Standards of GRAP and the requirements of the MFMA and DORA and for such internal control as the accounting officer determines is necessary to enable the preparation of the consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
15. In preparing the consolidated and separate financial statements, the accounting officer is responsible for assessing the Waterberg District Municipality and Waterberg Economic Development Agency'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 Waterberg District Municipality Group or to cease operations, or has no realistic alternative but to do so.

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

16. My objectives are to obtain reasonable assurance about whether the consolidated and separate 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 consolidated and separate financial statements.
17. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

18. 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 objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
19. 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.

20. 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 objectives presented in the annual performance report of the municipality for the year ended 30 June 2017:

Objectives	Pages in the annual performance report
Objective 01 – Basic service delivery	x – x
Objective 02 – Local economic development	x – x

21. 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.

22. I did not identify any material findings on the usefulness and reliability of the reported performance information for the following programmes:

- Objective 1: Basic service delivery
- Objective 2: Local economic development

Other matter

23. I draw attention to the matter below.

Achievement of planned targets

24. Refer to the annual performance report on page(s) x to x for information on the achievement of planned targets for the year and explanations provided for the under / overachievement of a significant number of targets.

Adjustment of material misstatements

25. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of basic service delivery and the local economic development objectives. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Introduction and scope

26. 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.
27. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements, performance and annual reports

28. The consolidated annual financial statements were not prepared, as required by section 122(2) of the MFMA.

Budget

29. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R264 645, in contravention of section 62(1)(d) of the MFMA. The unauthorised expenditure is incurred as a result of overspending on vote for long service award.

Procurement and contract management

30. 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.
31. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.
32. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5. Similar non-compliance was also reported in the prior year.
33. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. This non-compliance was identified in the procurement processes for the provision of travel agency and provision of legal services
34. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, in contravention of section 116(2)(c) of the MFMA.
35. Final awards and recommendation of awards to the accounting officer were made by an adjudication committee which was not constituted in accordance with the auditee's SCM policy or as prescribed by SCM regulation 29(2). This non-compliance was identified in the procurement processes for an advertising agency.

Expenditure management

36. Effective steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The disclosed irregular expenditure was caused by non-compliance with supply chain management requirements.

Consequence management

37. Authorisation of unauthorised expenditure amounting to R264 645 was not done through an adjustment budget, as required by section 32(2)(a)(i) of the MFMA
38. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA
39. Some of the irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
40. Some of the losses resulting from irregular expenditure were certified by council as irrecoverable without having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(b) of the MFMA

Internal control deficiencies

41. I considered internal control relevant to my audit of the consolidated and 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 qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

42. The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.
43. Effective human resource management was not implemented to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored

Financial and performance management

44. The financial statements and annual performance report contained numerous misstatements mainly due to a lack of financial monitoring and review
45. Non-compliance with legislation could have been prevented if management properly reviewed and monitored compliance.
46. Management did not implement the daily and monthly controls designed for the municipality's business processes especially in the proper supply chain management

47. The financial statements contained material misstatements. This was mainly due to staff members not fully understanding the requirements of the financial reporting framework
48. Lack of consequence management resulted in unauthorised, irregular as well as fruitless and wasteful expenditure

Governance

49. Those charged with governance did not 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

20 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 objectives 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, which constitutes the accounting authority’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 Waterberg 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.
 - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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.