



Report of the auditor-general to the North West provincial legislature and the council on the Dr. Ruth Segomotsi Mompati District Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of Dr. Ruth Segomotsi Mompati District Municipality set out on pages xx to xx, which comprise of the 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 and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Dr. Ruth Segomotsi Mompati District Municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2016 (Act No. 3 of 2016) (DoRA).

Basis for opinion

3. 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 financial statements section of my report.
4. I am independent of the district 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

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

Unauthorised, irregular and fruitless and wasteful expenditure

7. As disclosed in note 21 to the financial statements, unauthorised expenditure of R42 035 250 was incurred in the current year and the unauthorised expenditure of R43 028 362 in respect of prior years had not yet been dealt with in accordance with section 32 of the MFMA.
8. As disclosed in note 22 to the financial statements, irregular expenditure of R302 484 889 was incurred in the current year and the irregular expenditure of R200 092 166 in respect of prior years had not yet been dealt with in accordance with section 32 of the MFMA.
9. As disclosed in note 23 to the financial statements, fruitless and wasteful expenditure of R36 925 was incurred in the current year and the fruitless and wasteful expenditure of R103 128 in respect of prior years had not yet been dealt with in accordance with section 32 of the MFMA.

Restatement of corresponding figures

10. As disclosed in note 29 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of errors discovered during 2017 in the financial statements of the district municipality at, and for the year ended, 30 June 2017.

Material impairment

11. As disclosed in note 33 to the financial statements, the municipality incurred material losses of R1 105 703 as a result of bad debts written off.

Other matter

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

Unaudited disclosure notes

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

Responsibilities of the accounting office for the financial statements

14. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA standards of GRAP and the requirements of the MFMA and the 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.
15. 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 there is an intention either to liquidate the district municipality or to cease operations, or there is no realistic alternative but to do so.

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

16. 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 the financial statements.

17. 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

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 development priorities 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 district 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.
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 development priorities presented in the annual performance report of the district municipality for the year ended 30 June 2017:

| Development priorities | Pages in the annual performance report |
|---|--|
| Development priority 2: Service delivery and infrastructure development | x – x |
| Development priority 3: Local economic development | x – x |

21. 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.
22. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

Development priority 2: Service delivery and infrastructure development

Indicator: Percentage of approved Municipal Budget Spent by 30 June 2017

23. No reported strategic objectives for the above indicator was included in the 2016/17 Annual Performance Report. This is not in line with the requirements of section 41(c) of the Municipal System Act, 2000 (Act No. 32 of 2000).

Indicator: Number of pump stations, reservoirs and water treatment plants constructed by 30 June 2017 through the New Water Treatment Plant and Bulk Water Reticulation (Phase 2D) project in Greater Taung

24. No reported strategic objectives for the above indicator was included in the 2016/17 Annual Performance Report. This is not in line with the requirements of section 41(c) of the Municipal System Act, 2000 (Act No. 32 of 2000).

Indicator: Percentage of approved budget spent on the Phase 2 Ipelegeng Ext 4 And 5 Sewer Net-Work by 30 June 2017

25. No reported strategic objectives for the above indicator was included in the 2016/17 Annual Performance Report. This is not in line with the requirements of section 41(c) of the Municipal System Act, 2000 (Act No. 32 of 2000).

Indicator: Kilometers of the Raw Water Pipeline from Taung Dam to new Taung Water Treatment Plant (Phase 2C) constructed by 30 June 2017

26. No reported strategic objectives for the above indicator was included in the 2016/17 Annual Performance Report. This is not in line with the requirements of section 41(c) of the Municipal System Act, 2000 (Act No. 32 of 2000).

Indicator: Number of VIP toilets constructed in Kagisano-Molopo & Greater Taung Local Municipality area by 30 June 2017

27. No reported strategic objectives for the above indicator was included in the 2016/17 Annual Performance Report. This is not in line with the requirements of section 41(c) of the Municipal System Act, 2000 (Act No. 32 of 2000).

Indicator: Percentage of approved budget spent on the construction of New Waste Water Treatment Plant in Vryburg-Phase 1 by 30 June 2017

28. No reported strategic objectives for the above indicator was included in the 2016/17 Annual Performance Report. This is not in line with the requirements of section 41(c) of the Municipal System Act, 2000 (Act No. 32 of 2000).

Indicator: Percentage of approved budget spent on the construction of Raw Water Abstraction Works and Irrigation Channels in Christiana by 30 June 2017

29. No reported strategic objectives for the above indicator was included in the 2016/17 Annual Performance Report. This is not in line with the requirements of section 41(c) of the Municipal System Act, 2000 (Act No. 32 of 2000).

Indicator: Percentage of approved budget spent on the construction of Phase 2 of Geluksoord Ext 2 and 3 Bulk Water Supply Project by 30 June 2017

30. No reported strategic objectives for the above indicator was included in the 2016/17 Annual Performance Report. This is not in line with the requirements of section 41(c) of the Municipal System Act, 2000 (Act No. 32 of 2000).

Indicator: Percentage of households with access to basic level of water, sanitation, electricity by 30 June 2017

31. No reported strategic objectives for the above indicator was included in the 2016/17 Annual Performance Report. This is not in line with the requirements of section 41(c) of the Municipal System Act, 2000 (Act No. 32 of 2000).

Indicator: Percentage of approved Municipal Budget Spent by 30 June 2017

32. The reported achievement with regards to the indicator was misstated as the evidence provided indicated 54,78% and not 96% as reported.



Indicator: Percentage of approved budget spent on the Phase 2 Ipelegeng Ext 4 And 5 Sewer Net-Work by 30 June 2017

33. The reported achievement with regards to the indicator was misstated as the evidence provided indicated 81,66% and not 123% as reported.

Indicator: Number of VIP toilets constructed in Kagisano-Molopo & Greater Taung Local Municipality area by 30 June 2017

34. The reported achievement with regards to the indicator was misstated as the evidence provided indicated 2 799 number of VIP toilets constructed and not 1 631 as reported.

Indicator: Percentage of approved budget spent on the construction of New Waste Water Treatment Plant in Vryburg-Phase 1 by 30 June 2017

35. The reported achievement with regards to the indicator was misstated as the evidence provided indicated 86,94% and not 99% as reported.

Indicator: Percentage of approved budget spent on the construction of Raw Water Abstraction Works and Irrigation Channels in Christiana by 30 June 2017

36. The reported achievement with regards to the indicator was misstated as the evidence provided indicated 112,12% and not 133% as reported.

Indicator: Percentage of approved budget spent on the construction of Phase 2 of Geluksoord Ext 2 and 3 Bulk Water Supply Project by 30 June 2017

37. The reported achievement with regards to the indicator was misstated as the evidence provided indicated 69,63% and not 119% as reported.

Development priority 3: Local economic development

Indicator: Number of jobs created through capital projects and registered with EPWP by 30 June 2017

38. No reported strategic objectives for the above indicator was included in the 2016/17 Annual Performance Report. This is not in line with the requirements of section 41(c) of the Municipal System Act, 2000 (Act No. 32 of 2000).

Indicator: Reviewed District Agricultural Sector Plan by 30 June 2017

39. No reported strategic objectives for the above indicator was included in the 2016/17 Annual Performance Report. This is not in line with the requirements of section 41(c) of the Municipal System Act, 2000 (Act No. 32 of 2000).

Indicator: Number of Jobs created in the Agricultural Sector by 30 June 2017

40. No reported strategic objectives for the above indicator was included in the 2016/17 Annual Performance Report. This is not in line with the requirements of section 41(c) of the Municipal System Act, 2000 (Act No. 32 of 2000).

Indicator: Number of Jobs created in the Tourism Sector by 30 June 2017

41. No reported strategic objectives for the above indicator was included in the 2016/17 Annual Performance Report. This is not in line with the requirements of section 41(c) of the Municipal System Act, 2000 (Act No. 32 of 2000).

Indicator: Number of Jobs created in the SMME's Supported by LED Unit by 30 June 2017

42. No reported strategic objectives for the above indicator was included in the 2016/17 Annual Performance Report. This is not in line with the requirements of section 41(c) of the Municipal System Act, 2000 (Act No. 32 of 2000).

Indicator: Number of jobs created through capital projects and registered with EPWP by 30 June 2017

43. The reported achievement with regards to the indicator was misstated as the evidence provided indicated 602 and not 720 as reported.

Indicator: Number of Jobs created in the Agricultural Sector by 30 June 2017

44. The reported achievement with regards to the indicator was misstated as the evidence provided indicated 45 and not 37 as reported.

Other matters

45. I draw attention to the matters below.

Achievement of planned targets

46. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs xx to xx of this report.

Report on audit of compliance with legislation

Introduction and scope

47. 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 district municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
48. The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

Strategic planning and performance management

49. Amendments to the integrated development plan (IDP) were made without making the proposed amendments available for public comment and consultation with the local municipalities as required by regulations 3(4)(b), 15(1)(ii) and 3(5)(a) of the Municipal planning and performance management regulations.

Budget

50. Reasonable steps were not taken to prevent unauthorised expenditure of R42 035 250, as disclosed in note 21 to the financial statements, in contravention of section 62(1) (d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending of depreciation on property, plant and equipment.

Financial statements, performance and annual report

51. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets, non-current liabilities and disclosure notes were identified by the auditors in the submitted financial statements that were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.
52. The annual performance report for the 2016-17 financial year, did not include a comparison of the current year's performances with performances of the previous financial year as required by section 46(1)(b) of the MSA.



Asset management

53. The district municipality did not establish an investment policy that was adopted by council, as required by section 13(2) of the MFMA and regulation 3(1)(a) of the Municipal investment regulations.

Expenditure management

54. Money owed by the district municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
55. Effective steps were not taken to prevent irregular expenditure of R302 484 889 as disclosed in note 22 to the financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was due to the procuring of goods and services without following competitive bidding processes.

Consequence management

56. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the district municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) and (b) of the MFMA.
57. Allegations of financial misconduct against the accounting officer were not always investigated, as required by regulation 5(3) of the Disciplinary regulations for senior managers 5(3) and section 171(4) of MFMA.

Procurements and contract management

58. Some quotations and contracts 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).
59. Some of the construction contracts were awarded to contractors that did not qualify for the contract in accordance with section 18(1) of the CIDB Act and CIDB regulation 25(7A).
60. Awards were made to providers who were in the service of other state institutions or whose directors or 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).
61. 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 for the key projects listed:
- New water treatment plant and bulk water reticulation (Phase 2D) – Greater Taung project,
 - Ipeleng Extension 4 & 5 (Phase 2D) project,
 - Water treatment plant (Phase 2) – Taung dam to Taung project,
 - New waste treatment plant (Phase 1) – Vryburg project,
 - Geluksoord Ext 2 & 3 bulk water supply project
 - Raw water abstraction works and irrigation channels – Christiana project.
62. 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.

Other information

63. 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.
64. My opinion and findings do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
65. 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 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.
66. I did not receive the other information prior to the date of the auditor's report. When I do receive this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to re-issue my auditor's report amended as appropriate.

Internal control deficiencies

67. 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 findings on the annual performance report and the findings on compliance with legislation included in this report.
- Leadership did not adequately guide performance activities and failed to address all the prior year audit findings and the shortcomings in internal controls that resulted in the correction of various misstatements in the annual financial statements, the findings on performance information and compliance deviations that have been reported. Furthermore, sufficient internal controls to prevent the occurrence of unauthorised, irregular and fruitless and wasteful expenditure were again not implemented and monitored.
 - Management's internal controls and processes over the preparation and presentation of a complete audit file and the financial statements, performance report and compliance did not ensure that the financial statements and performance report were free from misstatements and findings on non-compliance.
 - Notwithstanding a functioning audit committee and internal audit, their inputs were not fully implemented by the district municipality. Despite the assistance received from internal audit on the guidance and monitoring of the audit findings action plan, their recommendations were not adhered to resulting in numerous audit findings not resolved. Consequently, there has been little to no improvement in solving of these findings.

Auditor General

Potchefstroom

30 November 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 development priorities and on the district 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 district 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 district municipality’s 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 district 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.