

# Report of the auditor-general to the Free State Legislature and the council on the Xhariep District Municipality

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Xhariep District Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and 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. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Xhariep District Municipality as at 30 June 2018, 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, 2017 (Act No. 3 of 2017) (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 this auditor's report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and 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.

### Material uncertainty relating to going concern

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.
7. Note 35 to the financial statements indicates that the municipality's current liabilities exceed its current assets by R10 404 872. The municipality is currently struggling to pay its creditors when due and is also having difficulty collecting amounts owed by debtors. These events or conditions, along with other matters as set forth in note 35, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as going concern.

## **Emphasis of matters**

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

## **Restatement of corresponding figures**

9. As disclosed in note 33 to the financial statements, the corresponding figures for 30 June 2017 have been restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2018.

## **Material impairment**

10. As disclosed in note 7 to the financial statements, receivables from exchange transactions were impaired by R1 384 093 (2017: R829 911).

## **Unauthorised expenditure**

11. As disclosed in note 37 to the financial statements, the municipality incurred unauthorised expenditure of R1 830 760 (2017: R5 237 820) in the year under review due to the overspending of the approved budget.

## **Irregular expenditure**

12. As disclosed in note 39 to the financial statements, irregular expenditure of R1 745 547 (2017: R1 509 550) was incurred, due to non-compliance with supply chain management (SCM) prescripts and the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA).

## **Fruitless and wasteful expenditure**

13. As disclosed in note 38 to the financial statements, fruitless and wasteful expenditure of R753 986 (2017: R870 415) was incurred, due to interest and penalties levied on late payments to suppliers.

## **Other matter**

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

## **Unaudited disclosure notes**

15. 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.

## **Responsibilities of the accounting officer for the financial statements**

16. 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 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.



17. In preparing the financial statements, the accounting officer is responsible for assessing the Xhariep 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 appropriate governance structure 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**

18. 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 the 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
19. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## Report on the audit of the annual performance report

### **Introduction and scope**

20. 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 key performance areas (KPAs) presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
21. 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.
22. 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 KPAs presented in the annual performance report of the municipality for the year ended 30 June 2018:

KPA	Pages in the annual performance report
KPA 2 – basic service delivery	X – X
KPA 3 – local economic development	X – X

23. 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.

#### **KPA 2 – basic service delivery**

24. I did not raise any material findings on the usefulness and reliability of the reported performance information for this KPA.

#### **KPA 3 – local economic development**

25. I did not raise any material findings on the usefulness and reliability of the reported performance information for this KPA.

#### **Other matters**

26. I draw attention to the matters below.

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

27. Refer to the annual performance report on pages X to X for information on the achievement of planned targets for the year and explanations provided for the under- or overachievement of a number of targets.

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

28. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 2 – basic service delivery and KPA 3 – local economic development. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

### **Report on the audit of compliance with legislation**

#### **Introduction and scope**

29. 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.

30. The material findings on compliance with specific matters in key legislation are as follows:



## Annual financial statements

31. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of current assets and liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were subsequently provided, resulting in the financial statements receiving an unqualified audit opinion.

## Expenditure management

32. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
33. Reasonable steps were not taken to prevent irregular expenditure amounting to R1 745 547, as disclosed in note 39 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with section 57(3)(a) of the MSA.
34. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R753 986, as disclosed in note 38 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties on late payments.
35. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R1 830 760, as disclosed in note 37 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by current year expenditure exceeding the adjusted budget.

## Asset management

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

## Procurement and contract management

37. Some goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.
38. Some quotations were accepted from prospective providers who were not on the list of accredited prospective providers and did not meet the listing requirements prescribed by the SCM policy, in contravention of SCM regulations 16(b) and 17(b).
39. Some 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).
40. The preference point system was not applied during some of the procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No. 5 of 2000). Similar non-compliance was also reported in the prior year.

## Human resource management

41. Financial interests were not disclosed by a senior manager within 60 days from the date of appointment, as required by regulation 36(1)(a) on the appointment and conditions of employment of senior managers.
42. I was unable to obtain sufficient appropriate audit evidence that the municipal manager and senior managers previously dismissed for financial misconduct were only re-appointed after the expiry of a 10-year term, as required by section 57A(1) of the MSA.

## Consequence management

43. The unauthorised 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) of the MFMA.
44. The irregular 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.
45. The 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.

## Other information

46. 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 and those KPAs presented in the annual performance report that have been specifically reported in this auditor's report.
47. 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.
48. 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 KPAs presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated. I have nothing to report in this regard.

## Internal control deficiencies

49. 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 on it. 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.



50. Various material misstatements were identified in the financial statements. This was mainly due to the vacancy in the chief financial officer position for the entire financial year under review. There has been a slow response in implementing and monitoring the audit action plan to address internal control deficiencies identified during the previous audits and as a result it was again a last-minute effort to avoid audit report matters.
51. The significant unauthorised, irregular and fruitless and wasteful expenditure incurred was due to a lack of consequence management within the municipality. Effective steps were also not taken by the council to ensure that there were consequences for poor performance and transgressions, as unauthorised, irregular and fruitless and wasteful expenditure was not investigated during the financial year.
52. The municipality did not always comply with applicable legislation. No formal processes were in place to monitor compliance with legislation, which resulted in the number of reported non-compliance issues. Consequences for non-compliance with legislation were lacking.
53. The audit committee and internal audit unit provided limited assurance over financial and performance reporting as well as compliance with legislation. The audit committee was not fully functional for the entire financial year and, as a result, the internal audit unit was also not effective.

Auditor - General

Bloemfontein

30 November 2018



AUDITOR - GENERAL  
SOUTH AFRICA

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## **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 KPAs 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 this 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 Xhariep 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 this auditor’s report. However, future events or conditions may cause a municipality to cease continuing 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, where applicable, related safeguards.