

Report of the auditor-general to the Free State Provincial Legislature and the Council on Thabo Mofutsanyana District Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Thabo Mofutsanyana District Municipality set out on pages ... to ..., 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 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, except for the effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Thabo Mofutsanyana 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, 2016 (Act No. 3 of 2017) (Dora).

Basis for qualified opinion

General expenses

3. I was unable to obtain sufficient appropriate evidence for travelling and subsistence and motor vehicle expenses due to the status of the accounting records. The municipality did not have adequate systems of internal control to ensure that goods and services paid for had actually been received. I could not confirm general expenditure by alternative means. Consequently, I was unable to determine whether any adjustments to general expenditure stated at R4 222 299 in note 19 to the financial statements were necessary.

Context for the opinion

4. 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.
5. 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.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty relating to going concern

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.
8. I draw attention to note 27 to the financial statements, which indicates that the municipality incurred a net loss of R4 481 736 during the year ended 30 June 2018 and, as of that date, the municipality's current liabilities exceeded its current assets by R11 331 425. As stated in note 27, these events or conditions, along with other matters as set forth in note 27, indicate that a material uncertainty exists that may cast doubt on the municipality's ability to continue as a going concern.

Emphasis of matter

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

Irregular expenditure

10. As disclosed in note 31 to the financial statements, irregular expenditure of R13 973 588 (2017: R4 692 309) was incurred, due to non-compliance with Supply Chain Management (SCM) requirements. In addition, the full extent of irregular expenditure is still in the process of being determined.

Material impairments

11. As disclosed in note 4 to the financial statements, material losses of R2 561 287 were incurred as a result of a write-off of irrecoverable debtors.

Restatement of corresponding figures

12. As disclosed in note 40 to the financial statements, the corresponding figures for 30 June 2017 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2018.

Other matters

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

Unaudited disclosure notes

14. 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 on it.

Unaudited supplementary schedules

15. The supplementary information set out on pages ... to ... 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 on them.

Responsibilities of 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 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 Thabo Mofutsanyana 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 KPA presented in the annual performance report of the municipality for the year ended 30 June 2018:

Key Performance Area	Pages in the annual performance report
KPA 1 – Basic service delivery	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.

24. The material findings in respect of the usefulness and reliability of the selected KPA are as follows:

KPA 1 – Basic service delivery

Non-food premises

25. The source information for achieving the planned indicator was not clearly defined.

Number of water samples taken

26. The municipality did not have an adequate record keeping system to enable reliable reporting on achievement of the indicator listed below. As a result, I was unable to obtain sufficient appropriate audit evidence. I was also unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements of the indicators.

Various indicators

27. The municipality did not have an adequate record keeping system to enable reliable reporting on achievement of the indicators listed below. As a result, I was unable to obtain sufficient appropriate audit evidence in some instances, while in other cases the supporting evidence provided did not agree to the reported achievements. Based on the supporting evidence that was provided, the achievement of these indicators was different to the reported achievements in the annual performance report. I was unable to further confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements of the indicators below:

Indicator	Reported achievement	Audited value
Number of milk samples taken	326	254
Number of childcare facilities inspected	301	311
Non-food premises	164	190

Other matter

28. I draw attention to the matter below.

Achievement of planned targets

29. Refer to the annual performance report on pages ... to ... 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 24 to 26 of this report.

Adjustment of material misstatements

30. 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. 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.

Report on the audit of compliance with legislation

Introduction and scope

31. 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.

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

Strategic planning and performance management

33. The IDP did not reflect a financial plan as required by sections 26 (h) of the Municipal Systems Act, 2000 (Act No. 32 of 2000 (MSA) and municipal planning and performance management regulation 2(3)(a).

34. The SDBIP was revised during the year without approval of the council following approval of an adjustments budget, as required by section 54(1)(c) of the MFMA.

Human Resource management

35. Job descriptions were not established for all posts in which appointments were made, as required by section 66(1)(b) of the MSA.

36. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA.

Expenditure management

37. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

38. An effective system of expenditure control, including procedures for the payment of funds, was not in place, as required by section 65(2)(a) of the MFMA.

39. Effective steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The value of R13 978 588, as disclosed in note 31, is not complete as management was still in the process of quantifying the full extent of the irregular expenditure. The majority of the disclosed irregular expenditure was caused by non-compliance with SCM regulations.
40. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R222 545, as disclosed in note 30 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 interest and penalties incurred on late payments made.

Asset management

41. Capital assets were disposed of without the municipal council having in a meeting open to the public, decided on whether the assets were still needed to provide the minimum level of basic municipal services or considered the fair market value of the assets and the economic and community value to be received in exchange for the assets, as required by section 14(2)(a) 14(2)(b) of the MFMA.

Consequence management

42. 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.
43. 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.
44. Allegations of financial misconduct laid against officials of the municipality were not investigated by the disciplinary board, relevant treasury or an independent investigator or team of investigators appointed by council, as required by municipal regulations on financial misconduct procedures and criminal proceedings 5(4).
45. Cases of financial misconduct which constitute a crime committed by officials were not always reported to the South African Police Service, as required by the municipal regulations on financial misconduct procedures and criminal proceedings 10(1).

Annual financial statements

46. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and, which resulted in the financial statements receiving a qualified audit opinion.

Liability management

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

Procurement and contract management

48. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, as required by SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.
49. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, as required by SCM regulation 22(1) and 22(2).
50. Some of the contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, as required by SCM regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.
51. Some of the contracts were awarded through a competitive bidding processes that were not adjudicated by the bid adjudication committee, as required by SCM regulation 29(1).
52. Some of the competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2).
53. The preference point system was not applied for some of the procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) (PPPFA).
54. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
55. Some of the contracts were extended or modified without the approval of a properly delegated official, as required by SCM regulation 5.

Other information

56. 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 the selected KPA presented in the annual performance report that have been specifically reported in this auditor's report.
57. 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.
58. 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 KPA presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
59. I did not receive the other information prior to the date of this auditor's report. When I do receive and read 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 retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

60. 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 basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
61. Leadership did not always exercise oversight responsibility to ensure compliance with legislation, as instances of non-compliance with applicable laws and regulations reported in the prior year were also identified in the current year. This is due to a lack of investigations and implementation of consequence management.
62. Leadership did not monitor the implementation of the action plan to address material weaknesses identified in the previous year in performance and financial reporting. A proper record management system was not implemented to record information that supported the reported performance and financial information.
63. The processes followed during the preparation and review of the annual financial statements and the annual performance report were not adequate, resulting in material misstatements being identified in the annual financial statements and the annual performance report. This is due to instabilities identified in relation to the position of the chief financial officer.

Bloemfontein

30 November 2018



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 KPA 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 Thabo Mofutsanyana 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.