

Report of the auditor-general to Limpopo Provincial Legislature and Council of the Mopani District Municipality

Report on the audit of the financial statements

Adverse opinion

1. I have audited the financial statements of the Mopani 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 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, because of the significance of the matters described in the basis for adverse opinion section of my report, the financial statements do not present fairly, in all material respects, the financial position of the municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with South African Standards of General 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 adverse opinion

Property, plant and equipment

3. 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 stated at R5 169 974 905 in note 3 to the financial statements is understated by R18 997 041 and repairs and maintenance is overstated by the same amount. Additionally, there was an impact on the surplus for the period and on the accumulated surplus.
4. Included in work in progress amounting to R1 078 127 732 in note 3 to the financial statements is completed infrastructure assets amounting to R40 464 254. Consequently, work in progress is overstated by R40 464 254. Additionally, there is a resultant impact on the surplus for the period.
5. I was unable to verify the existence of infrastructure assets amounting to R47 528 928. I was unable to verify the assets by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to infrastructure assets stated at R3 954 994 629 in note 3 to the financial statements.
6. I have identified significant deficiencies in supporting documents provided for new boreholes for the current and prior year. I have identified payments made for boreholes without any evidence of work done. Some of the supporting documents are incomplete. I was unable to satisfy myself that expenditure was incurred on genuine borehole developments commissioned by the municipality. Consequently, I was unable to confirm whether any adjustments were

necessary to infrastructure assets stated at R3 954 994 629 (2016-2017: R4 079 386 344) in note 3 to the financial statements.

7. The municipality did not disclose property, plant and equipment in terms of GRAP 17, *Property, plant and equipment*. The following disclosures were not included in note 3 to the financial statements:
- Work in progress per class of assets
 - The carrying value of property, plant and equipment that is taking significantly longer to complete than expected, including reasons for any delays.
 - The carrying value of property, plant and equipment where construction or development has been halted either during the current or previous reporting period(s).
 - Expenditure incurred to repair and maintain property, plant and equipment in the notes to the financial statements.

Receivables

8. The gross consumer debtors of R747 019 423 (2016-2017: R774 670 965) disclosed in note 9 to the financial statements exclude Ba-Phalaborwa municipality's debtors for basic water and basic sewerage amounting to R261 187 992. Consequently, the gross balance of consumer debtors is understated by R261 187 992. There is a consequential impact on the allowance for impairment of consumer debtors, surplus for the period and accumulated surplus.
9. The comparative figure for consumer debtors per local municipality disclosed in note 9 stated at R649 857 605 differs with the total consumer debtors gross balances of R774 670 965 as per the same note. Consequently, the consumer debtors per local municipality comparative figure is understated by R124 813 360.
10. The allowance for impairment of R608 094 199 (2016-2017: R556 516 413) and R65 903 611 (2016-2017: R52 429 995) for water and sewerage respectively as per note 9 differ with the amount of R588 318 736 (2016-2017: R529 587 083) and R85 679 075 (2016-2017: R80 641 641) as per the age analysis in the same note. The provisional amount is misclassified between water and sewerage in the age analysis.
11. One of the five local municipalities in its capacity as the water service provider for the municipality did not have adequate controls in place for allocating payments received from customers for water resulting in other services reflecting credit balances, whilst water had outstanding balances. As a result, water debtors are overstated. I was not able to determine the full extent of the overstatement of consumer debtors stated at R747 019 423 (2016-2017: R774 670 965) in note 9 as it was impracticable to do so. There is a consequential impact on the allowance for impairment of consumer debtors, surplus for the period and accumulated surplus.
12. I have identified a difference of R10 019 169 between consumer debtors as per the Giyani Local Municipality's age analysis of R132 864 931 and the amount as per the municipality's financial statements of R122 845 762. Consequently, consumer debtors disclosed in note 9 to the financial statements are understated by R10 019 169.

13. Included in receivables from exchange transactions disclosed in note 7 to the financial statements is a National Treasury receivable of R11 364 593 (2016-2017: R11 364 593). National Treasury has not committed to reimburse the municipality for the excess expenditure on the Municipal Infrastructure Grant (MIG) in the prior year. The municipality does not have a right to the receivable. Consequently, receivables from exchange transactions stated at R228 041 494 (2016-2017: R194 202 462) is overstated by R11 364 593.

Revenue

14. Included in sale of water revenue of R165 531 593 disclosed in note 15 to the financial statements, is sewerage and sanitation charges of R13 914 695. Consequently, sale of water is overstated by R13 914 695 and sewerage and sanitation charges are understated by the same amount.
15. Included in revenue from conditional grants of R481 695 081 in note 18 to the financial statements is revenue recognised for expenditure incurred not in accordance with the conditions of the Water Services Infrastructure Grant amounting to R37 097 186. Consequently, revenue from conditional grants is overstated by R37 097 186. There is a resultant impact on the surplus for the period and unauthorised expenditure.

Value Added Taxation (VAT)

16. The municipality did not reconcile the year-end VAT receivable balance amounting to R104 728 852 (2016-2017: R85 888 375) to the balance as per South African Revenue Services's records. The municipality did not implement internal control systems to reconcile all the VAT control accounts. I have identified several control accounts that contained unexplained balances. Several journals were processed to clear amounts in control accounts that have accumulated in prior periods due to the lack of regular reconciliation of the VAT accounts. I identified a difference of R75 177 657 between the amount disclosed in note 8 to the financial statements and my recalculations. Consequently, VAT receivable is overstated by R75 177 657. I was unable to determine the effect of the misstatement on other account balances and classes of transactions as it was impracticable to do so.
17. The municipality did not account for VAT in accordance with the accrual basis of accounting in the financial statements. The VAT balance was not adjusted for the effect of VAT on accounts payable and consumer debtors. I was unable to determine the full extent of the misstatement due to the status of the accounting records. Consequently, I was unable to determine if further adjustments were required to VAT receivable stated at R104 728 852 (2016-2017: R85 888 375).

Payables from exchange transactions

18. Included in trade payables of R354 290 578 (2016-2017: R406 395 314) in note 13 to the financial statements, are sundry creditors amounting to R344 137 154. I was unable to obtain sufficient appropriate audit evidence for sundry creditors due to the status of the accounting records. Management did not implement controls to recognise and reconcile sundry creditors in the accounting system. In addition, I could not obtain satisfactory explanations for journals amounting to R18 714 902. I have also identified a difference of R227 077 178 between the general ledger and the creditors listing. I could not confirm the trade payables by alternative means. Consequently, I was unable to determine whether any further adjustments were

necessary to trade payables stated at R354 290 578 (2016-2017: R406 395 314) in the financial statements.

19. The municipality restated the comparative amount of payables from exchange transaction by R138 409 979 as described in note 30 to the financial statements, the restatement was made to rectify previous year misstatements. I have identified unexplained adjustments amounting to R137 894 256 that could not be justified by the municipality. The municipality did not maintain an adequate system of internal controls over its record keeping and recording of payables. I could not confirm the amount by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the comparative amount for payables from exchange transactions stated at R1 522 846 360.
20. I have identified a difference of R51 392 496 between the restated balance for payables from exchange transactions of R1 471 453 864 as per note 30 to the financial statements and the comparative amount of R1 522 846 360 as per the statement of financial position. The restated balance of R1 471 453 864 disclosed in note 30 to the financial statements is understated by R51 392 496.
21. I have identified a difference of R6 660 537 between the retention amount of R57 473 945 (2016-2017: R45 272 129) as per note 13 to the financial statements and the balance of R64 134 482 as per the retentions listing. I have identified a similar misstatement in my previous audit. I have further identified differences amounting to R12 080 927 between the retentions listing and the supporting documents. Consequently, retentions are understated by R18 741 464. I was not able to determine the impact of this misstatement on the other account balances as it was impracticable to do so.
22. During 2017, I identified differences amounting to R15 004 620 between the amount disclosed of R44 835 083 for leave accrual in note 13 to the financial statements and my recalculations. Consequently, leave accrual was understated by R15 004 620. Additionally, there was a resultant impact on the surplus for the period. My audit opinion on the financial statements for the period ended 30 June 2017 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of the leave accrual for the current period.

Expenditure

23. Included in bulk purchases of R288 788 797 is repairs and maintenance and VAT amounting to R74 899 615 and R20 296 640 respectively. Consequently, bulk purchases disclosed in note 23 to the financial statements is overstated by R95 196 255. There is a resultant impact on repairs and maintenance, VAT receivable and surplus for the period.
24. I was unable to obtain sufficient appropriate audit evidence for bulk purchases amounting to R56 968 969 as management did not provide supporting documentation for the recorded amount. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to bulk purchases stated at R288 788 797 (2016-2017: R313 206 196).
25. I have identified expenditure amounting R70 528 762 that was incorrectly accounted for in the current year. Consequently, expenditure is overstated by R70 528 762. There is a resultant impact on surplus for the period and accumulated surplus.

26. GRAP 1, *Presentation of Financial Statements* define expenses as decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets, other than those relating to distributions to owners. The municipality is implementing the project on behalf of the Department of Water and Sanitation. Included in other expenses of R83 195 526 as per note 25 to the financial statements is expenditure amounting to R13 167 364 incurred by the municipality as an implementing agent for the department, and refundable by the department. general expenses are therefore overstated by R13 167 364 and surplus for the period is understated by the same amount.
27. The municipality restated the general expenses comparative figure by R172 327 962 as described in note 30 to the financial statements, the restatement was made to rectify previous year misstatements. I have identified adjustments amounting to R154 710 383 that were incorrectly processed to general expenses. Consequently, the comparative figure for general expenses is overstated by R154 710 383.
28. GRAP 1, *Presentation of Financial Statements* par.36 requires that each material class of similar items be presented separately in the financial statements, and that items of a dissimilar nature or function be presented separately unless they are immaterial. Included in other expenses of R83 195 526 disclosed in note 25 to the financial statements is expenditure for VIP toilets amounting to R9 878 105 and interest incurred on outstanding creditors accounts amounting to R11 885 207. Included in information technology services of R18 837 525 disclosed in note 24, is expenditure amounting to R15 367 749 for the VAT recovery consultants. Furthermore, included in other contractors as per note 24 is security services amounting to R25 395 845. The municipality did not classify expenditure as required by GRAP 1, *Presentation of Financial Statements*.
29. During 2017, the municipality did not account for all expenditure transactions that occurred before 30 June 2017 amounting to R95 093 922. Consequently, expenditure was understated by R95 093 922. Additionally, there was a resultant impact on the trade payables from exchange transactions. My audit opinion on the financial statements for the period ended 30 June 2017 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of expenditure for the current period.
30. The municipality restated the comparative figure for bulk purchases from R298 587 131 to R313 206 196 as disclosed in note 30 to the financial statements. I was unable to obtain sufficient appropriate evidence for the restatement and could not confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the bulk purchases comparative figure stated at R313 206 196 in the financial statements.
31. During 2017, I was unable to obtain sufficient appropriate audit evidence that expenditure had been properly accounted for, as the municipality did not maintain adequate controls over its record keeping. I was unable to confirm expenditure by alternative means. Consequently, I was unable to determine whether any adjustment to expenditure stated at R748 350 699 to the financial statements was necessary. My audit opinion on the financial statements for the period ended 30 June 2017 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of expenditure for the current period.

Employee costs

32. GRAP 1, *Presentation of Financial Statements*, requires that the presentation and classification of items in the financial statements be retained from one period to the other. Included in employee costs of R376 318 320 disclosed in note 19 to the financial statements is transport allowance (bus coupons) amounting to R17 665 424 (2016-2017: R15 293 450) which should have been accounted for as travel and subsistence. In the previous year travel and subsistence was disclosed as part of general expenses. The municipality has not retained presentation and classification of travel and subsistence from the prior year. The amount does not qualify to be classified as employee costs. Consequently, employee costs is overstated by R17 665 424 (2016-2017: R15 293 450) and expenditure is understated by the same amount.
33. I identified a difference of R31 589 721 between employee costs of R376 318 320 disclosed in note 19 to the financial statements and the payroll records. Management did not implement internal control measures to reconcile the payroll records to the general ledger. Consequently, employee costs is overstated by R31 589 721. There is a resultant impact on the surplus for the period.
34. The municipality restated the comparative figure for basic salary from R187 883 382 as previously reported to R173 844 736 in note 19 to the financial statements. I was unable to obtain sufficient appropriate evidence for the restatement and could not confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the basic salary comparative figure of R173 844 736 as disclosed in note 19 to the financial statements.
35. During 2017, I was unable to obtain sufficient appropriate audit evidence that overtime claims had been properly accounted for, as the municipality did not maintain adequate controls over its record keeping. I was unable to confirm this expenditure by alternative means. Consequently, I was unable to determine whether any adjustment to employee costs stated at R318 848 636 to the financial statements was necessary. My audit opinion on the financial statements for the period ended 30 June 2017 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of the employee costs for the current period.

Employee benefit liabilities

36. The municipality did not account for the restatement of the comparative figure for long term service awards by R44 835 143 in accordance with GRAP 3, *Accounting Policies, Changes in Accounting Estimates and Errors*. The nature of the prior period error and the amount of the correction for each financial statement line items affected is not disclosed in the prior period error note 30.
37. The municipality did not disclose the post-retirement medical aid benefits liability and the long service awards liability disclosed in note 12 to the financial statements in line with the requirements of GRAP 25, *Employee Benefits*. The following disclosures were omitted:
- The general description on the type of the plan was not disclosed on the financial statements
 - The reconciliation of opening and closing accrued liabilities

- The expenditure items for employee related provisions expensed in the statement of financial performance were not disclosed i.e actuarial gains or loss, current service costs and interest paid
- The assumptions made by the actuaries were not disclosed in the financial statements
- The sensitivity analysis was not included in the financial statements
- The liabilities and experience adjustment for current and previous four annual periods was not disclosed
- The best estimate of benefits payments expected in the next annual periods was only disclosed for the district municipality, the amounts for the local municipalities (Water and sewer employees) was not disclosed.

In addition, the liability amount on the past and future changes in the accrued liability disclosure of R15 566 721 differ to the liability amount of R80 502 509 as per the same note 12.

The disclosures in respect of multi-employer plans as required by *GRAP 25, Employee Benefits* were omitted in the financial statements for pension fund plans into which the municipality makes contributions for pension related post retirement benefits for employees.

Commitments

38. An amount of R11 589 010 disclosed as operational commitments in note 28 is duplicated in the commitment amount of R659 867 983 as it is already accounted for in the capital commitments of R648 278 973. In addition, included in commitments is an amount R9 388 445 in respect of a finance lease where a liability is already accounted for in the statement of financial position and a separate disclosure was made as per GRAP 13, *Leases*. I also identified a difference of R44 796 971 between the amounts as per the commitments register and my recalculation. Consequently commitments stated at R659 867 938 (2016-2017: R384 077 299) are overstated by R65 774 435.
39. The municipality incorrectly disclosed a commitment on projects for which it acts as an implementing agent amounting to R70 548 280. Consequently, commitments stated at R659 867 938 (2016-2017: R384 077 299) are overstated by R70 548 280.
40. I identified a number of contracts which were still effective as at 30 June 2018 that were not disclosed as commitments in the financial statements. Management did not implement adequate internal controls for identifying and recording capital commitments. I was not able to determine the full extent of the understatement of commitments stated at R659 867 938 (2016-2017: R384 077 299) as it was impracticable to do so.
41. During 2017, the municipality incorrectly disclosed commitments amounting to R20 454 063 for contracts which were completed as at 30 June 2017. Consequently, commitments was overstated by R20 454 063. My audit opinion on the financial statements for the period ended 30 June 2017 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of the commitments for the current period.

Statement of comparison of budget and actual amounts

42. I have noted inconsistencies and material differences between budget amounts as per the statement of comparison of budget and actual amounts and the budget approved by council

contrary to the requirements of GRAP 24, *Budget Information*. The statement is not easily comparable to the budget. Inconsistencies also exist between actual amounts and descriptions as per the financial statements and the budget statement. The inconsistencies impair the usability of the statement of budget and actual amounts by the users of the financial statements. In addition, there is no indication in the statement as to how the approved capital expenditure of R914 278 000 was spent. An explanation of material differences between the budget and actual amounts is not included in a note to the financial statements.

Cash flow statement

43. 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. The cash flow statement is not a true reflection of cash flow of from operating and investing activities.

Statement of changes in net assets

44. I have identified an amount of R121 898 180 reflected on the statement of changes in net assets as net income/(loss) recognised directly in net assets which reduces the surplus for the period to R135 381 780. I was unable to obtain sufficient appropriate audit evidence for the net income/(loss) recognised directly in net assets. In addition, the restated accumulated surplus balance as per the statement of changes in net assets differ to comparative amount as per the statement of financial position. Consequently, I was unable to determine whether any further adjustments were necessary to accumulated surplus stated at R3 890 530 823 (2016-2017: R3 755 149 039).

Contingent liabilities

45. I was unable to obtain sufficient appropriate audit evidence for contingent liabilities stated at R283 727 576 in note 29 to the financial statements. I have identified inconsistencies between the disclosure note and the underlying records. I was unable to audit the amount by alternative means. Consequently, I was unable to determine whether any adjustments were required to contingent liabilities stated at R283 727 576.

46. During 2017, I was unable to obtain sufficient appropriate audit evidence that contingent liabilities have been properly accounted for, as the municipality did not maintain accurate and complete records of all its contingent liabilities. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustment to contingent liability stated at R321 316 569 was necessary. My audit opinion on the financial statements for the period ended 30 June 2017 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of contingent liabilities for the current period.

Material losses

47. The municipality did not have adequate systems in place to determine water distribution losses. Consequently, I was unable to determine whether any further adjustments were necessary to the distribution losses for the current and prior year disclosed in note 35 to the financial statements.

GRAP 104 disclosure

48. The municipality did not disclose the quantitative and qualitative disclosures in respect of financial instruments in the financial statements as required by GRAP 104, *Financial Instruments* for the current and previous year.

Unauthorised expenditure

49. The municipality incorrectly calculated unauthorised expenditure in the current year. The municipality did not calculate the overspending per main vote. Consequently, unauthorised expenditure of R154 239 337 disclosed in note 32 is understated by R47 538 879.

Irregular expenditure

50. The municipality did not include the required information on irregular expenditure in the notes to the annual financial statements, as required by section 125(2)(d) of the MFMA. The municipality made payments in contravention of supply chain management (SCM) legislation that were not included in irregular expenditure of R196 997 397 as disclosed in note 34 to the financial statements. Adequate systems and controls were not in place to ensure that all irregular expenditure was accounted for. I was not able to determine the full extent of the understatement of irregular expenditure in the current and previous year as it was impracticable to do so.

Fruitless and wasteful expenditure

51. The municipality did not include the required information on fruitless expenditure in the notes to the annual financial statements, as required by section 125(2)(d) of the MFMA. The municipality incurred fruitless and wasteful expenditure amounting to R17 885 948. The details of the fruitless and wasteful expenditure were not included in note 33 to the financial statements.

Related parties

52. In terms of GRAP 20, *Related Parties*, if a reporting entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. The municipality did not disclose details of some of the members of key management personnel as required by GRAP 20, *Related Parties*. Furthermore, the municipality did not disclose related party relationships in the financial statements.

Going concern

53. I have identified differences between the municipality's going concern disclosure note 31 and the statement of financial position. The net current liability of the municipality as per note 31 to the financial statements, is stated at R3 890 530 823 instead of R1 178 844 045 as per the statement of financial position. The municipality incorrectly stated that the total liabilities exceeded total assets whilst total assets exceeded total liabilities. Consequently, the net current liability as per note 31 is overstated by R2 711 686 778.

Pension and medical contributions

54. Section 125(1)(c) of the MFMA requires the municipality to disclose in the notes to the financial statements the total amounts paid in pension and medical aid contributions, and whether any amounts were outstanding as at the end of the financial year. I have identified a difference of R36 795 283 between the medical and pension amounts paid and the amount as per the underlying records. Consequently, the amount paid as disclosed in note 35 to the financial statement is understated by R36 795 283.

Context for the opinion

55. 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.

56. 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.

57. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse opinion.

Emphasis of matter

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

Restatement of corresponding figures

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

Material underspending of the conditional grants

60. As disclosed in note 11 to the financial statements, the municipality has materially underspent the budget on conditional grants to the amount of R65 441 472.

Other matter

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

Unaudited supplementary schedules

62. The supplementary schedule set out on pages xx to xx does not form part of the financial statement and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

63. 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 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.
64. In preparing the financial statements, the accounting officer is responsible for assessing the 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

65. 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.
66. 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

67. 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.
68. 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.
69. 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 2018:

Development priorities	Pages in the annual performance report
KPA 2: Basic service delivery	x – x
KPA 3: Local economic development	x – x

70. 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.

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

KPA 2 – Basic service delivery

Various indicators

72. I was unable to obtain sufficient appropriate audit evidence for the reported achievements in the annual performance report of the indicators listed below. This was due to a lack of technical indicator descriptions, proper performance management systems and processes with formal standard operating procedures that predetermined how the achievement would be measured, monitored and reported. I was unable to confirm that the reported achievements of these indicators were reliable by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements.

Indicator description	Target	Reported achievement
Percentage of assessment activities completed related to the implementation of infrastructure maintenance and replacement plan year to date (ytd)	100%	100%
Development of Water Services Infrastructure Development Plan	1	1
Number of activities completed towards a functional water infrastructure ytd	5	100%
Approved district water master management plan (water services)	1	1
Percentage of progress in the development municipal infrastructure investment plan ytd	100%	1

Indicator description	Target	Reported achievement
Percentage contractors with progress and performance that conform to the contract requirements	100%	100%
Percentage of resolutions implemented related to the contractors meetings	100%	100%
Percentage of contractors who are on schedule (with their gantt chart)	100%	100%
Percentage of contractors who are behind schedule	0%	10%
Number of water projects towards the provision of water to the district	13	15
Percentage of contractors who are deficient and needs intervention	0%	12%
Number of projects supported on green economy activities	8	8
Percentage of food control and safety resolutions taken and implemented	100%	100%

73. The reported achievement in the annual performance report did not agree to the supporting evidence provided for the indicators listed below. The supporting evidence provided indicated that the achievements of these indicators were as follows:

Indicator description	Reported achievement	Audited value
Development of the disaster management annual report and submission to PDMC and council before end of September	1	0
Approved district water master management plan (MM's office)	1	0

74. 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 achievement in the annual performance report. I was also 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 listed below.

Indicator description	Reported achievement	Audited value
Number of formal health and hygiene education/workshops conducted	6	115
Number of accommodation establishments inspected	195	92
Number of VIP ablution facilities for provision of sanitation in the District	800	150
Percentage of complaints investigated on littering, illegal dumping and burning of waste	100%	33%

75. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against the following targets as reported in the annual performance report. This was due to limitations placed on the scope of my work as no corroborating evidence was provided. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance.

Indicator description	Target	Reported
Percentage of contractors who are behind schedule	0%	10%
Percentage of contractors who are deficient and need intervention	0%	12%
Percentage of progress in the development municipal infrastructure investment plan ytd	100%	1
Number of RBIG reports submitted to DWS YTD	12	10
Number of VIP ablution facilities for provision of sanitation in the district ytd (M195)	530	0
Report on the improved level of services of water supply to communities	4	3

Number of VIP ablution facilities for provision of sanitation in the district

76. The target approved as per service delivery and budget implementation plan (SDBIP) is 530 however target as per the annual performance report is 265. The target was changed without the necessary approval.

Development of the integrated waste management plan and approval by council

77. The target approved as per SDBIP is 100%, however the target as per the annual performance report is 1, the unit of measure as per the SDBIP is a percentage however the unit of measure as per the APR is a number. The target was changed without the necessary approval.

Approved district water master management plan

78. The planned target and indicator was an approved District Water Master Management Plan but the reported achievements referred to was a draft master plan.

Development of water services infrastructure development plan

79. The planned target was number of activities achieved in the development of water services infrastructure development plan but the reported achievements referred to was a draft master plan.

Number of activities completed towards a functional water infrastructure ytd

80. The planned indicator and target was the number of activities achieved but the reported achievements referred to was a percentage.

Various indicators

81. The source information, evidence and method of calculation for achieving the planned indicators was not clearly defined for the indicators below:

Indicator description	Target
Number of accommodation establishments inspected	168
Development of the disaster management annual report and submission to PDMC and council before end of September	1

To accelerate sustainable infrastructure and maintenance in all sectors of development

82. The strategic objective approved in the integrated development plan and service delivery and budget implementation plan was not included in the annual performance report.

KPA 3 – Local economic development

Various indicators

83. The reported achievement in the annual performance report did not agree to the supporting evidence provided for the indicators listed below. The supporting evidence provided indicated that the achievements of these indicators were as follows:

Indicator description	Reported achievement	Audited value
To create a conducive environment to support key economic sectors	12	6
Coordination of (and reporting on) EPWP	12	14
Development of the status quo of mining in the district	5	4

Number of EPWP beneficiaries employed

84. The reported achievement of 341 for number of EPWP beneficiaries employed is not reliable as the municipality did not have an adequate performance management system to maintain records to enable reliable reporting on achievement of targets. 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 achievement. Based on the supporting evidence that was provided, the achievement was 162, but I was unable to further confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievement.

Various indicators

85. The source information, evidence and method of calculation for achieving the planned indicators was not clearly defined for the indicators below:

Indicator description	Target
Training of SMMEs within the district	5
Promote SMME development initiatives year to date (ytd)	9
Development of the status quo of mining in the district	4

Coordination of (and reporting on) EPWP

86. The target approved as per SDBIP is one however target as per the annual performance report is four. The target was changed without the necessary approval.

Other matter

87. I draw attention to the matter below.

Achievement of planned targets

88. 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 72 to 86 of this report.

Report on the audit of compliance with legislation

Introduction and scope

89. 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 [type of auditee] with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

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

Strategic planning and performance management

91. The performance management system and related controls were inadequate as it did not adequately describe how the performance monitoring and measurement processes should be conducted, organised and managed, as required by municipal planning and performance management regulation 7(1).

Annual financial statements, annual performance report and annual report

92. 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 identified by the auditors in the submitted financial statements were not corrected which resulted in the financial statements receiving an adverse audit opinion.
93. The council failed to adopt an oversight report containing the council's comments on the annual report within the prescribed timelines, as required by section 129(1) of the MFMA.
94. The local community was not invited to submit representations in connection with the 2016-17 annual report, as required by section 127(5)(a) of the MFMA.

Assets management

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

Conditional grants

96. The Water Services Infrastructure Grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of the DoRA.
97. Performance in respect of programmes funded by the Water Services Infrastructure Grant was not evaluated, as required by section 12(5) of the DoRA.

Procurement and contract management

98. 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.

Human resource management

99. 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 Municipal Systems Act, 2000 (Act No. 5 of 2000) (MSA)
100. Two of the eight senior managers did not sign performance agreements within the prescribed period, as required by section 57(2)(a) of the MSA.
101. A senior manager failed to disclose financial interests within 60 days from date of appointment, as required by regulation 36(1)(a) on appointment and conditions of employment of senior managers.

Consequence management

102. 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.

103. Some of 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.

Expenditure management

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

105. An adequate management, accounting and information system was not in place which recognised expenditure and accounted for creditors, as required by section 65(2)(b) of the MFMA.

106. Reasonable 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 majority of the disclosed irregular expenditure was caused by non-compliance with SCM laws and regulations.

107. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R17 885 948, as disclosed in note 33 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 penalties due to non-payment of bulk water purchases from the Department of Water and Sanitation.

108. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed unauthorised expenditure was caused by overspending in various votes.

Revenue management

109. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

Other information

110. 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 selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.

111. 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.

112. 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 programmes development priorities presented in the annual

performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

113. 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

114. 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 adverse opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
115. The accounting officer and management did not exercise adequate oversight responsibility regarding financial and performance reporting and compliance with laws and regulations. Leadership did not exercise effective monitoring over the implementation of the audit action plan resulting in recurring prior year issues.
116. Consequence management was not implemented to deter non-performance and promote clean administration. The control environment remains concerning.
117. The basic accounting principles of daily and monthly accounting and reconciling of transactions have not been adequately implemented and monitored.
118. The financial statements and the annual performance report are not reviewed for accuracy and completeness by the accounting officer.
119. Internal controls for monitoring compliance with laws and regulations are ineffective as they do not detect and prevent instances of non-compliance with applicable laws and regulations.
120. The internal control monitoring mechanisms of the municipality are not functioning optimally, as many control weaknesses are only discovered during the audit of the financial statements and performance information.

Other reports

121. 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.
122. The Special Investigating Unit is investigating the procurement of goods and services that was in contravention of supply chain management laws and regulations. The investigation was still in progress at year-end.

Auditor-General

Polokwane

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 development priorities 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 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.

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.