



## Report of the auditor-general to the North West provincial legislature and the council on the Bojanala Platinum District Municipality

### Report on the audit of the financial statements

#### Disclaimer of opinion

1. I was engaged to audit the financial statements of the Bojanala Platinum District Municipality set out on pages xx to xx, which comprise of 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. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

#### Basis for disclaimer of opinion

##### Cash and cash equivalent

3. During 2017, the municipality did not correctly disclose the cash book balances in the notes to the financial statements as required by section 125(2)(a)(ii) of the MFMA. The cash book balances for the comparative periods ended 30 June 2017 and 30 June 2016 as disclosed in note 8 to the financial statements were overstated by R24 001 922 and R21 301 562 respectively. My audit opinion on the financial statements for the period ended 30 June 2017 was modified accordingly. My opinion on the current periods financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

##### Property, plant and equipment

4. The municipality did not correctly account for property, plant and equipment as required by GRAP 17, *Property, plant and equipment*. Consequently property, plant and equipment was understated by R5 658 967 (2017: R6 680 103), depreciation was overstated by R2 131 637 and expenditure for 2017 was overstated by R5 764 486. Additionally, there was a consequential impact on the surplus for the year and the accumulated deficit disclosed in the financial statements.

##### Payables from exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence for trade payables included in payables from exchange transactions due to a lack of proper record keeping and reconciliation of control accounts by the municipality. I was unable to confirm these trade payables by alternative means. In addition, payables from exchange transactions were overstated by

R14 626 322 as the municipality did not have adequate systems to account for payables from exchange transactions. Consequently, I was unable to determine whether any further adjustment to payables from exchange transactions of R50 211 850 presented in the statement of financial position and disclosed in note 11 to the financial statements were necessary.

#### Accumulated deficit

6. I was unable to obtain sufficient appropriate audit evidence for the accumulated deficit due to unreconciled differences between the financial statements and the underlying accounting records. I was unable to confirm the accumulated deficit by alternative means. Consequently, I was unable to determine whether any adjustment to the accumulated deficit of R36 097 733 (2017: R40 488 264) presented in the statement of financial position and the statement of changes in net assets was necessary.

#### Employee related cost

7. I was unable to obtain sufficient appropriate audit evidence for employee related costs due to variances between the accounting system and the payroll system that could not be supported. I could not confirm these employee related costs by alternative means. In addition, the leave pay included in the restated employee related cost corresponding figure was overstated by R3 512 202. Consequently, I was unable to determine whether any further adjustment to employee related costs of R167 273 790 presented in the statement of financial performance and disclosed in note 14 to the financial statements was necessary.

#### Depreciation and amortisation

8. I was unable to obtain sufficient appropriate audit evidence for the restated corresponding figure for depreciation and amortisation due to the status of the accounting records. I was unable to confirm the depreciation and amortisation by alternative means. Consequently, I was unable to determine whether any adjustment relating to the depreciation and amortisation corresponding figure of R9 174 383 presented in the statement of financial performance and disclosed in note 16 to the financial statements was necessary.

#### Contracted services

9. I was unable to obtain sufficient appropriate audit evidence for the restated corresponding figure for contracted services due to lack of evidence to support these transactions. I was unable to confirm these contracted services by alternative means. In addition, contracted services disclosed in note 19 to the financial statements was overstated by R13 894 753 (2017: R43 968 744) and transfers and subsidies disclosed in the statement of financial performance was understated by R13 393 427 (2017: R40 353 789), as the municipality did not correctly account for contracted services and transfers and subsidies in accordance with GRAP 1, *Presentation of financial statements*. Consequently, I was unable to determine whether any further adjustment relating to the contracted services corresponding figure of R66 099 041 presented in the statement of financial performance and disclosed in note 19 to the financial statements was necessary.

#### Transfers and subsidies

10. I was unable to obtain sufficient appropriate audit evidence for the restated corresponding figure for transfers and subsidies due to lack of evidence to support these transactions. I was unable to confirm these transfers and subsidies by alternative means. Consequently, I was unable to determine whether any adjustment relating to the transfers and subsidies corresponding figure of R24 864 284 presented in the statement of financial performance was necessary.

## Loss on disposal of assets and liabilities

11. I was unable to obtain sufficient appropriate audit evidence for the restated corresponding figure for loss on disposal of assets and liabilities due to the status of the accounting records. I was unable to confirm the loss on disposal of assets and liabilities by alternative means. Consequently, I was unable to determine whether any adjustment relating to the loss on disposal of assets and liabilities corresponding figure of R3 360 219 presented in the statement of financial performance was necessary.

## Operational cost

12. I was unable to obtain sufficient appropriate audit evidence for the restated corresponding figure for operational cost due to lack of evidence to support these transactions. I was unable to confirm these operational cost by alternative means. Consequently, I was unable to determine whether any adjustment relating to the operational cost corresponding figure of R61 395 016 presented in the statement of financial performance and disclosed in note 20 to the financial statements was necessary. In addition, operational cost was overstated by R4 224 006 (2017: understated by R4 914 310) as the municipality did not correctly account for operational cost in accordance with GRAP 1, *Presentation of financial statements*.

## Cash flow statement

13. The calculation of the net cash outflow from operating activities, cash flow from investing activities and cash flow from financing activities for the current and prior period did not appropriately account for cash and non-cash items as required by GRAP 2, *Cash flow statements*. I was unable to determine the extent of this misstatement on the items presented in the cash flow statement or the notes thereto as it was impracticable to do so due to the municipality's system.

## Statement of comparison of budget and actual amounts

14. GRAP 24, *Presentation of budget information in the financial statements* requires the presentation of the budget information including a statement of comparing the budget and actual amounts as well as reasons for variances. The budget amounts included in the statement of comparison between budget and actual amounts did not agree to the final approved budget of council and reasons for variances were not disclosed. Consequently, the variances between the actual and budgeted amounts as disclosed in the statement of comparison of budget and actual amounts, does not reflect the actual variances.

## Prior period errors

15. The municipality did not correctly disclose prior period errors in notes 26 and 27 to the financial statements as required by GRAP 3 *Accounting policies, estimates and errors*. The nature, the amount of the correction for each financial statement item affected and the amount of the correction at the beginning of the earliest prior period were not disclosed. I was unable to quantify the full extent of the misstatement as it was impracticable to do so.

## Unauthorised expenditure

16. Section 125 of the MFMA requires disclosure of unauthorised expenditure incurred. During 2016 the municipality incurred unauthorised expenditure of R19 992 610 due to overspending of individual votes within the budget which was not included in the opening balance of the comparative figure for unauthorised expenditure. This resulted in unauthorised expenditure being understated by R19 992 610 (2017: R19 992 610). In addition, I was unable to obtain sufficient appropriate audit evidence that all unauthorised expenditure incurred during 2017 and 2018 has been disclosed, as the municipality did not have adequate systems in place to identify and record all unauthorised expenditure. I was unable to confirm the unauthorised expenditure by alternative means. Consequently, I was unable to determine whether any

further adjustment relating to unauthorised expenditure of R157 275 142 (2017: R157 275 142) as disclosed in note 30 to the financial statements was necessary.

### **Irregular expenditure**

17. Section 125 of the MFMA requires the disclosure of irregular expenditure incurred. I was unable to obtain sufficient appropriate audit evidence for irregular expenditure as documentation to confirm the irregular expenditure disclosed not being provided. The municipality's records did not permit the application of alternative procedures. In addition, the municipality made payments of R3 782 241 in contravention of the supply chain management requirements which were not included in the irregular expenditure disclosed. Consequently, I was unable to determine whether any further adjustment relating to irregular expenditure of R304 178 972 disclosed in note 32 to the financial statements were necessary.
18. SCM regulation 36(2) requires the disclosure of deviations from inviting competitive bids. The municipality made payments of R25 605 350 (2017: R42 187 292) by deviating from inviting competitive bids. These deviations were not disclosed in the financial statements as required.

### **Material uncertainty relating to going concern**

19. I draw attention to the matter below. My opinion is not modified in respect of this matter.
20. As disclosed in note 29 to the financial statements, the municipality's total liabilities exceed its total assets by R27 133 040 for the year ended 30 June 2018. These events or conditions, along with other matters set forth in note 29 to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

### **Emphasis of matters**

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

### **Material uncertainty relating to contingencies**

22. As disclosed in note 24 to the financial statements the municipality has contingent liabilities of R3 860 784 which will only be confirmed after the occurrence of a future event.

### **Fruitless and wasteful expenditure**

23. As disclosed in note 31 to the financial statements, fruitless and wasteful expenditure of R424 536 was incurred in the current year and fruitless and wasteful expenditure of R5 296 339 from prior years have not yet been dealt with in accordance with section 32 of the MFMA.

### **Other matters**

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

### **Unaudited disclosure notes**

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

### **Unaudited supplementary schedules**

26. The supplementary information set out on pages xx to xx 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 thereon.



## Responsibilities of the accounting officer for the financial statements

27. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the MFMA and the Division of Revenue Act of South Africa, 2016 (Act No. 3 of 2016) (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.
28. 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 appropriate governance structure either intends to liquidate the municipality or to cease operations, or there is no realistic alternative but to do so.

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

29. My responsibility is to conduct an audit of the financial statements in accordance with International Standards on Auditing (ISAs) and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.
30. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to my audit of the financial statements. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

## Report on the audit of the annual performance report

### Introduction and scope

31. 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.
32. 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 measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
33. 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
Basic service delivery and infrastructure development	xx – xx





34. 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.
35. The material findings in respect of the usefulness and reliability of the selected development priority are as follows:

### Basic service delivery and infrastructure development

#### Various indicators: Reported achievement not consistent with the planned indicator

36. The reported achievement was not consistent with the planned indicator for the indicators listed below:

Indicator	Reported achievement
Number of roads programmes completed by 30 June 2018 in Letlhakeng Village Moses Kotane Local Municipality	1.8 kms internal roads paved in Letlhakeng Village
Number of sanitation projects constructed in Mazista and Derby (Kgetlengrivier Local Municipality) by 30 June 2018	Toilets dislodged in Mazista (100 households) and Derby (459 households)
Number of structures constructed in Mmakau Village, Madibeng Local Municipality by 30 June 2018	Repair works in Mmakau sports facility completed

#### Various indicators: Reported achievement did not agree with evidence provided

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

Indicator description	Reported achievement	Audited value
Number of public awareness campaigns conducted in BPDM by 30 June 2018	20 Public awareness campaigns conducted	18 Public awareness campaigns conducted
Number of waste recovery awareness campaigns implemented in 5 local municipalities by 30 June 2018	Awareness campaigns implemented in 5 local municipalities	Awareness campaigns implemented in 4 local municipalities

#### Procurement of disaster equipment in support of local municipalities by Bojanala Platinum District Municipality by 30 June 2018

38. I was unable to obtain sufficient appropriate audit evidence to support the reported achievement for this indicator. This was due to a lack of technical indicator descriptions and formal standard operating procedures that predetermined how the achievement would be measured, monitored and reported. I was unable to confirm the reported achievement of the



indicator by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of “disaster equipment procured and delivered” as reported in the annual performance report.

## **Other matters**

39. I draw attention to the matters below.

### **Achievement of planned targets**

40. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 36 to 38 of this report.

### **Adjustment of material misstatements**

41. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information from the development priority for Basic service delivery and infrastructure development. As management subsequently corrected only some of these misstatements, I reported material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

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

### **Introduction and scope**

42. 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.

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

### **Strategic planning and performance management**

44. The service delivery and budget implementation plan (SDBIP) for the year under review did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote, as required by section 1 of the MFMA.

45. Performance targets were not set for each of the key performance indicators (KPIs) for the financial year, as required by section 41(1)(b) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) and regulation 12(1) of the Municipal Planning and Performance Management Regulations.

### **Annual financial statements and annual reports**

46. 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 disclosure items identified by the auditors in the submitted financial statements were subsequently corrected but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a disclaimer of audit opinion.

47. The council failed to adopt an oversight report containing the council's comments on the annual report for the year ended 30 June 2017 within the prescribed timelines, as required by section 129(1) of the MFMA.



### **Expenditure management**

48. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
49. An adequate management, accounting and information system which recognised expenditure when it was incurred and accounted for creditors and payments made was not in place as required by section 65(2)(b) of the MFMA.
50. I was unable to obtain sufficient appropriate audit evidence that reasonable steps were taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the unauthorised expenditure could not be quantified as indicated in the basis for qualification paragraph.
51. 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 not following a competitive bidding process as required by SCM regulation 19(a).
52. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R424 536, as disclosed in note 31 to the 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 to suppliers.

### **Revenue management**

53. A tariff policy was not adopted for the levying of fees for provision of municipal services, as required by section 74(1) of the MSA and section 62(1)(f)(i) of the MFMA.

### **Asset and liability management**

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

### **Consequence management**

55. Unauthorised, irregular and 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)(a) and (b) of the MFMA.

### **Human resource management**

56. I was unable to obtain sufficient appropriate audit evidence that the post in which the municipal manager was appointed was advertised, as required by section 54A(4)(a) of the MSA and regulation 10(2) of the Regulation on Appointment and Conditions of Employment of Senior Managers.
57. An approved staff establishment was not in place, as required by section 66(1)(a) of the MSA.
58. 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.

### **Procurement and contract management**

59. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.
60. Some of the 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).





61. Some of the quotations were accepted from bidders whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.
62. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1). Similar non-compliance was also reported in the prior year.
63. The preference point system was not applied in the procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act. Similar non-compliance was also reported in the prior year.
64. Sufficient appropriate audit evidence could not be obtained that some construction contracts were awarded to contractors that were registered with the Construction Industry Development Board (CIDB) and qualified for the contract in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A).
65. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e) and the code of conduct for staff members issued in terms of the MSA.

### Other information

66. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which include, the audit committee's report. The other information does not include the financial statements, the auditor's report thereon and those selected development priorities presented in the annual performance report that have been specifically reported on in the auditor's report.
67. 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.
68. 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 development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
69. As a result of the disclaimer of opinion expressed on the financial statements, I do not conclude on material misstatements of the other information relating to the financial statements. I did not receive the other information prior to the date of this auditor's report. After I receive and read this information, and if I conclude that there is a material misstatement, 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

70. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.



- Leadership did not exercise oversight and decisive actions were not taken to address risks to ensure that complete and accurate financial reporting and related internal controls are implemented. Furthermore, the action plan to address prior year audit findings was not adequate as numerous instances of repeat audit findings were identified which negatively impacts on the assurance level provided by leadership.
- Management failed to implement effective controls to ensure that all information in the financial statements were reliable before submission for audit as basic accounting errors were identified which could have been prevented had reasonable due care been exercised. Finance staff do not fully understand the requirements of the financial reporting framework and sustainable systems and processes were not introduced and implemented during the year for the recording, reconciling and reporting of transactions and balances which resulted in an over reliance on consultants to prepare the financial statements. Management could not provide adequate evidence in support of the information presented in the financial statements. Management did not adequately review and monitor compliance with applicable laws and regulations resulting in compliance matters not being addressed.
- The internal audit unit was not adequately resourced in order to identify internal control deficiencies and recommend effective corrective action. As a result, the audit committee was unable to provide adequate oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations. The effectiveness of the audit committee as an assurance provider is impacted by leadership's inability to act on the recommendations made by the audit committee.

Auditor-General

Rustenburg

30 November 2018



AUDITOR GENERAL  
SOUTH AFRICA

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