



Report of the auditor-general to the North West provincial legislature and the council on the Ngaka Modiri Molema District Municipality

Report on the audit of the financial statements

Disclaimer of opinion

1. I was engaged to audit the financial statements of the Ngaka Modiri Molema 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

Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment including the adjustments made on the corresponding figures which also included changes to the deemed cost on assets. I was unable to confirm these adjustments by alternative means. In addition, the municipality did not correctly account for depreciation and amortisation as required by GRAP 17, *Property, plant and equipment*. I was unable to determine the total resulting impact of this misstatement on property, plant and equipment and the related depreciation expense as it was impracticable to do so. Consequently, I was unable to determine whether any further adjustments relating to property, plant and equipment of R4 494 162 592 (2017: R4 472 566 065) as disclosed in note 2 and the depreciation and amortisation expense of R199 514 777 (2017: R197 982 992) as disclosed in note 22 to the financial statements were necessary.

VAT receivable

4. I was unable to obtain sufficient appropriate audit evidence that VAT receivables for the current and previous year had been properly accounted for, due to a lack of supporting reconciliations of VAT returns to accounting records as well as a lack of supporting evidence for journals processed against VAT receivable. I was unable to confirm the VAT receivables by alternative means. Consequently, I was unable to determine whether any adjustments to VAT receivable of R20 990 323 (2017: R114 153 047) disclosed in note 9 to the financial statements were necessary.

Inventories

5. I was unable to obtain sufficient appropriate audit evidence that inventory as disclosed in the statement of financial position had been properly accounted for in accordance with GRAP 12, *Inventories* due to the status of the accounting records resulting in differences between the financial statements and the inventory listing. Furthermore, I was unable to obtain sufficient appropriate audit evidence for journals processed as well as the adjustments to corresponding figures of inventories as the municipality could not provide sufficient audit evidence for the adjustments. I was unable to confirm these inventories by alternative means. Consequently, I was unable to determine whether any adjustments relating to inventories of R17 403 617 disclosed in note 6 to the financial statements were necessary.

Payables from exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence for trade payables or adjustments made to payables from exchange transactions in the current and previous years due to differences between the financial statements and the accounting records and supporting documents not provided. I was unable to confirm these payables by alternative means. In addition, payables were understated by R7 700 392.
7. In addition, as the local municipalities within the district were providing retail water services on behalf of the district municipality as per the agreement with the district municipality, the actual cost incurred by the local municipalities for the provision of free basic water and sanitation services should be paid by the district municipality to the local municipalities in accordance with the DORA allocations. As the municipality did not maintain adequate records of these allocations, I was unable to determine the resultant understatement of payables from exchange transactions. I could not confirm these payable from exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments relating to payables from exchange transactions of R149 755 086 (2017: R248 949 450) as disclosed in note 13 to the financial statements were necessary.

Revenue from non-exchange transactions

8. The municipality incorrectly recognised revenue before meeting the conditions attached to the Municipal Infrastructure Grant as required by GRAP 23, *Revenue from non-exchange transactions*. Payments in terms of the rural sanitation programmes were made when no services were received at year-end. As a result, unspent conditional grants and receipts and prepayments were understated and work in progress included in property, plant and equipment and revenue from government grants and subsidies was overstated by R55 195 952 respectively. Additionally, there was a resultant impact on the surplus for the year and the accumulated surplus in the financial statements.

General expenditure

9. The municipality did not disclose general expenditure in accordance with GRAP 1, *Presentation of financial statements* which requires that general expenditure should be disclosed in total and individual amounts per each sub category. In addition, there were differences between the financial statements and the supporting documents as well as expenditure recorded in the incorrect period resulting in general expenses being overstated by R11 018 849. Furthermore, I was unable to obtain audit evidence for some journals and general expenditure payments, due to a lack of record management controls by the municipality to ensure that documents were available. I was unable to confirm these expenses by alternative means. In addition, there is a consequential impact on the surplus and the accumulated surplus for the year under review.

Contracted services

10. I was unable to obtain sufficient appropriate audit evidence for contracted services due to the status of the accounting records and a lack of implemented controls by the municipality to ensure that expenditure relating to drought-relief was indeed incurred at the required level



before payment was made. I was unable to confirm these expenses by alternative means. Consequently, I was unable to determine whether any adjustments relating to contracted services of R24 458 274 (2017: R56 553 072) as disclosed in note 23 to the financial statements were necessary.

Bulk purchases

11. The municipality did not correctly record all expenditure relating to bulk purchases as required by GRAP 1, *Presentation of financial statements* as money owed to Sedibeng Water was not recorded, resulting in bulk purchases being understated by R49 041 710 and payables from exchange transactions being understated by the same amount. Furthermore, as the municipality incorrectly disclosed this amount as a contingent liability in note 28 to the financial statements, contingent liabilities are overstated by the same amount.

Commitments

12. I was unable to obtain sufficient appropriate audit evidence for commitments as the municipality did not have an adequate contract management system to record, maintain and reconcile payments made on its commitments and to disclose capital commitments as required by GRAP 17, *Property, plant and equipment*. I was unable to confirm these commitments by alternative means. In addition, commitments are understated by R25 436 981. Consequently, I was unable to determine whether any further adjustments relating to commitments of R125 598 197 disclosed in note 27 to the financial statements were necessary.

Accumulated surplus

13. I was unable to obtain sufficient appropriate audit evidence for the adjustments of R1 296 892 917 to the accumulated surplus as disclosed in the statement of changes in net assets due to a lack of proper record keeping of supporting documents for these adjustments. I was unable to confirm these adjustments by alternative means. Consequently, I was unable to determine whether any adjustment relating to the accumulated surplus of R4 427 812 172 (2017: R4 289 492 104) as presented in the statement of financial position and the statement of changes in net assets was necessary.

Prior-year adjustments

14. The municipality did not disclose prior period errors in note 30 to the financial statements, as required by GRAP 3, *Accounting policies, estimates and errors*. The nature and the amount of the correction for each financial statement item affected and the amount of the correction at the beginning of the earliest previous period were not disclosed. In addition, I was unable to obtain sufficient appropriate audit evidence for the prior period errors disclosed, as the supporting information was not provided. I was unable to confirm these disclosures by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the prior period errors disclosed in the financial statements.

Unauthorised expenditure

15. I was unable to obtain sufficient appropriate audit evidence for unauthorised expenditure due to the status of the accounting records. I was unable to confirm the unauthorised expenditure by alternative means. Consequently, I was unable to determine whether any adjustments relating to unauthorised expenditure of R4 033 756 287 (2017: R1 704 192 565) disclosed in note 34 to the financial statements were necessary.

Irregular expenditure

16. Section 125 of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) requires the disclosure of irregular expenditure incurred. I was unable to obtain sufficient appropriate audit evidence for the restatement made to the opening balance correction, prior year corrections, adjustments made in the current year relating to prior year

corrections or for irregular expenditure incurred in the current year due to the status of the accounting records. In addition, the municipality made payments of R77 120 845 in contravention with the supply chain management requirements and appointments outside the approved organisational structure in contravention of sections 66(1) and 66(3) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) which were not included in irregular expenditure disclosed. As the municipality did not quantify the full extent of the irregular expenditure, it was impracticable to determine the resultant understatement of irregular expenditure. The municipality's records did not permit the application of alternative procedures. Consequently, I was unable to determine whether any further adjustments relating to irregular expenditure of R1 171 401 865 (2017: R1 487 557 347) disclosed in note 36 to the financial statements were necessary.

Cash flow statement

17. I was unable to obtain sufficient appropriate audit evidence for the net cash flows from operating activities and investing activities included in the cash flow statement for the current and prior period as the municipality did not adequately review the movements on the cash flow statement. I was unable to confirm these cash flow items by alternative means. Consequently, I was unable to determine whether any adjustments relating to the cash flow statement and notes thereto were necessary.

Distribution water losses

18. I was unable to obtain sufficient appropriate audit evidence for water losses due to the municipality not having adequate control measures in place to accurately determine the extent of these losses as required by Section 125(2)(d)(i) of the MFMA. I was unable to confirm these losses by alternative means. Consequently, I was unable to determine whether any adjustments relating to water losses of R15 632 521 (2017: R13 393 916) as disclosed in note 39 to the financial statements were necessary.

Going concern

19. The municipality disclosed in note 33 that it had an accumulated deficit of R4 427 812 172 and that its total liabilities exceeds its assets by R4 427 812 172. However, the municipality had an accumulated surplus R4 427 812 172 as at 30 June 2018 as disclosed in the statement of changes in net assets and, as of that date, the municipality's total assets exceeded its total liabilities by R4 427 812 172.

Budget statement

20. The municipality did not appropriately present budgeted and actual amounts as required by GRAP 24, *Presentation of budget information in the financial statements*. I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as the actual amounts due to a lack of supporting documents and the amounts not agreeing to the statement of financial performance or statement of financial position. I was unable to confirm these amounts by alternative means. Consequently, I was unable to determine whether any adjustments relating to differences between the budget and actual amounts and the reasons for variances as disclosed in the statement of comparison of budget and actual amounts were required.

Contingent liabilities

21. The municipality did not correctly disclose contingent liabilities as required by GRAP 19, *Provisions, contingent liabilities and contingent assets* as the municipality did not have adequate systems to ensure that all claims against the municipality were recorded and that only claims that are not yet finalised were disclosed. This resulted in contingent liabilities being understated by R50 410 793. In addition, I was unable to obtain sufficient appropriate audit evidence for some of the contingent liabilities disclosed and I was unable to confirm these contingent liabilities by alternative means. Consequently, I was unable to determine whether

any further adjustment relating to the contingent liabilities of R691 989 171 disclosed in note 28 were necessary.

Financial instruments

22. The municipality did not disclose the classes of financial instruments held and the nature of risks arising from these financial instruments in note 32 to the financial statements as required by GRAP 104, *Financial instruments*. I was unable to determine the impact of the omitted disclosure.

Aggregation/accumulation of immaterial uncorrected misstatements

23. The financial statements were materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following items included in the statement of financial position and the statement of financial performance:

Current assets stated as R142 943 622 was misstated as follows:

- Receivables from exchange transactions is understated by R4 564 545
- Receivables from non-exchange transactions is understated by R2 388 421
- Cash and cash equivalents is understated by R1 494 667

Total expenditure stated as R654 997 852 was misstated as follows:

- Transfers and subsidies is understated by R3 000 000

In addition, I was unable to obtain sufficient appropriate audit evidence for journals processed against expenditure and to confirm the following items by alternative means:

- Employee cost and operating lease expenditure items for which evidence could not be obtained of R310 503 890 and R2 487 673 respectively as included in the disclosed balance of R654 997 852.

Consequently, I was unable to determine whether any further adjustments to these items were necessary.

Emphasis of matter

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

Fruitless and wasteful expenditure

25. As disclosed in note 35 to the financial statements, fruitless and wasteful expenditure of R676 300 was incurred in the current year and fruitless and wasteful from prior years of R9 980 680 had not yet been dealt with in accordance with section 32 of the MFMA.

Other matter

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

Unaudited disclosure notes

27. 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.

Responsibilities of the accounting officer for the financial statements

28. 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, 2017 (Act No. 3 of 2017) (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.
29. 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

30. 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.
31. 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

32. 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 presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
33. 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.
34. 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 key performance area 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 2: Basic service delivery	x – x



35. 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.
36. The material findings in respect of the usefulness and reliability of the selected key performance area are as follows:

KPA 2: Basic service delivery

KPI 8: Number of public information education relations (PIER) conducted by June 2018

37. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of number of public information education relations conducted by June 2018. This was due to the municipality not submitting the programs relating to the PIER campaigns. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of 89 as reported in the annual performance report.

KPI 11: Supply and installation of underground water

38. There was no clear and logical link between the indicator together with the related target of “20 Boreholes installed with underground water monitoring equipment (data loggers) by June 2018” and the strategic objective to which it relates. The indicator and related target focused on installation of monitoring equipment, while the strategic objective aimed to achieve the actual monitoring of water levels. Furthermore, the measures taken to improve performance against target :20 Boreholes installed with underground water monitoring equipment (data loggers) by June 2018 were not included in the annual performance report.

KPI 13: Number of villages served with water through tankering

39. I was unable to obtain sufficient appropriate audit evidence for the reported achievement for this target of 21 villages served water through water tankering. This was due to inadequate technical indicator descriptions. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of 21.
40. Furthermore, I was unable to obtain sufficient appropriate audit evidence for the measures taken to improve performance for this indicator as reported in the annual performance report. This was due to limitations placed on the scope of my work as management could not provide supporting documents for the measures taken to improve performance. I was unable to confirm the reported measures by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance of this indicator.

KPI 14: Number of operations and maintenance incidents on water related queries addressed

41. The achievement for target 800 operations and maintenance incidents on water related queries addressed was 1214. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of 865.

KPI 17: Number of capital projects in construction stage to be completed by 30 June 2018

42. The measures taken to improve performance against target 14 Capital Projects in construction stage to be completed by 30 June 2018 were not included in the annual performance report.

Various indicators

43. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance as reported in the annual performance report for the indicators listed below. Limitations were placed on the scope of my work as management could not provide supporting documents for the measures taken to improve performance. I was unable to confirm the reported measures by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance of the following indicators:

Indicator description	Planned target	Reported achievement
KPI 7: Number of disaster management awareness campaigns conducted by June 2018	4 Disaster Management awareness campaigns conducted	3
KPI 12: Number of households connected with piped water inside yards by June 2018	600 Households connected with piped water inside yard by June 2018	286 households connected with piped water inside Yard
KPI 16 (A): Number of waste water treatment plant maintained by June 2018	6 Waste Water treatment plants maintained	1

Other matters

44. I draw attention to the matters below.

Achievement of planned targets

45. 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 37 to 43 of this report.

Adjustment of material misstatements

46. 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 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

47. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

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



Consequence management

49. Unauthorised, irregular, 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.

Financial statements and Annual report

50. 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 a disclaimer audit opinion.
51. The oversight report adopted by the council on the 2016-17 annual report was not made public, as required by section 129(3) of the MFMA.

Expenditure management

52. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
53. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by awarding of contracts without following a competitive bidding process
54. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R4 432 548, as disclosed in note 35 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties on overdue accounts
55. Reasonable steps were not 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. The majority of the disclosed unauthorised expenditure was caused by procurements done in excess of the approved adjustment budget

Asset management

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

Human resource management

57. 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.
58. The municipal manager was appointed without submitting proof of previous employment, as required by municipal performance regulation 4(4)(b).
59. Financial interest was not disclosed by the municipal manager within 60 days from date of appointment, as required by regulation 36(1)(a) on appointment and conditions of employment of senior managers.
60. Financial interest was not disclosed by some senior managers within 60 days from date of appointment, as required by regulation 36(1)(a) on appointment and conditions of employment of senior managers.
61. I was unable to obtain sufficient appropriate audit evidence that appointments were made in posts which were provided for in the approved staff establishment, as required by section 66(3) of the MSA.

Procurement and contract management

62. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded in accordance with the legislative requirements due to a lack of proper record keeping resulting in requested bidding documents not being submitted for audit. A similar limitation was also reported in the prior year.
63. 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.
64. Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.
65. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were only accepted from bidders whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM regulation 43. Similar non-compliance was also reported in the prior year.
66. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM regulation 22(1) and 22(2). Similar non-compliance was also reported in the prior year.
67. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding, as required by SCM regulations 21(b) and 28(1)(a) and Preferential Procurement Regulations. Similar non-compliance was also reported in the prior year.
68. Some of the contracts were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).
69. The preference point system was not applied with some of 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.
70. Some of the contracts were awarded to bidders based on preference points that were not allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations. Similar non-compliance was also reported in the prior year.
71. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders that scored the highest points in the evaluation process as required by section 2(1)(f) of Preferential Procurement Policy Framework Act and Preferential Procurement Regulations.
72. Awards were made to providers who were in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).
73. 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)

Other information

74. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the audit committee's report ,



mayor's foreword and Municipal Manager's overview. The other information does not include the financial statements, the auditor's report thereon and those selected key performance areas presented in the annual performance report that have been specifically reported on in the auditor's report.

75. 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.
76. 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 key performance area presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
77. 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. If, based on the work I have performed relating to the audit of performance information and compliance with legislation, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

78. 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.
 - Adequate oversight responsibility regarding financial and performance reporting, compliance and related internal controls was not exercised. Management did not implement effective human resources management processes to ensure that adequate and sufficiently skilled resources were in place especially in the finance department and that performance is monitored. In addition, the municipality's monitoring controls to ensure the proper implementation of the overall performance management system process of planning, budgeting, implementation and reporting were not sufficient.
 - The municipality did not implement a proper record keeping system to ensure that complete, relevant and accurate information is accessible and available to support financial reporting and compliance with laws and regulations. The municipality did not prepare regular, accurate and complete financial reports that are supported and evidenced by reliable information.
 - Management's continuous failure to comply with laws and regulations as well as their inability to implement controls to ensure reliable and accurate financial reporting, is a concern. This factor, as well as the continuous non adherence with the council's supply chain management policy without consequences reflects negatively on management's commitment towards a clean administration.
 - In addition, there is no adequate risk strategy in place that addresses identified risks in supply chain management, performance reporting as well as non-compliance with laws and regulations. The effectiveness of the audit committee and internal audit's role as an assurance provider was compromised by management's inability to adequately address and react to internal audit's findings and recommendations.

Other reports

79. I draw attention to the following engagement 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.

Investigation

80. An independent consulting firm is performing an investigation at the request of the North West departments of Finance and Local Government and Human Settlements. The investigation was initiated after the Executive Council of the North West Province took a decision to undertake a comprehensive forensic investigation at the municipality following allegations of mismanagement, fraud, corruption and other related allegations which covers the period 1 January 2011 to 30 November 2014. The investigation was still in progress at the date of this report.

Potchefstroom

30 November 2018



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence