



**REPORT OF THE AUDITOR-GENERAL TO THE NORTH WEST PROVINCIAL LEGISLATURE
AND THE COUNCIL OF THE MOSES KOTANE LOCAL MUNICIPALITY**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Moses Kotane Local Municipality set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2014, 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, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (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.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Moses Kotane Local Municipality as at 30 June 2014, and its financial



performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and the DoRA.

Emphasis of matters

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

Restatement of corresponding figures

8. As disclosed in note 37 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of an error discovered during 2014 in the financial statements of the Moses Kotane Local Municipality at, and for the year ended, 30 June 2013.

Material impairments

9. As disclosed in note 9 to the financial statements, material impairments to the amount of R60 070 570 (2013: R48 895 182) were incurred as a result of provision for doubtful debts.

Unauthorised, irregular and fruitless and wasteful expenditure

10. As disclosed in note 40 to the financial statements, unauthorised expenditure of R4 158 455 was incurred in the current year and the unauthorised expenditure from prior years of R17 287 070 had not yet been dealt with in accordance with section 32 of the MFMA.
11. As disclosed in note 42 to the financial statements, irregular expenditure of R48 136 423 was incurred in the current year and irregular expenditure from prior years of R204 555 250 had not yet been dealt with in accordance with section 32 of the MFMA.
12. As disclosed in note 41 to the financial statements, fruitless and wasteful expenditure of R3 394 823 was incurred in the current year and fruitless and wasteful from prior years of R7 077 644 had not yet been dealt with in accordance with section 32 of the MFMA.

Additional matter

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

Unaudited disclosure notes

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

REPORT ON OTHER LEGAL AND REGULARITY REQUIREMENTS

15. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2014:
- To provide potable water to all communities on pages XX to XX.
 - To provide sanitation to facilities to all at RDP standard within five years on pages XX to XX.
 - To improve the storm water drainage system in problem areas identified within the next financial year on pages XX to XX.



- To improve the condition of the main internal roads and external roads throughout the municipality within the next five financial years on pages XX to XX.
 - To provide and maintain Community Lighting Infrastructure on pages XX to XX.
 - To ensure proper coordination of land use development and management on pages XX to XX.
 - To provide access to land for the purpose of housing and other developments throughout the next five years on pages XX to XX.
 - To ensure the provision of effective waste removal and landfill sites and improve waste management system in terms of waste collection on pages XX to XX.
17. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
18. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).
19. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
20. The material findings in respect of the selected objectives are as follows:

To provide potable water to all communities

Usefulness of reported performance information

21. The FMPPI requires that performance indicators must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 25% of the indicators were not verifiable. This was because management was not aware of the requirements of the FMPPI.

Reliability of reported performance information

22. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not valid, accurate and complete when compared to the source information and evidence provided. This was due to a lack of standard operating procedures and documented system descriptions for the accurate recording of actual achievements and technical indicator descriptions for the accurate measurement, recording and monitoring of performance.

To provide sanitation to facilities to all at RDP standard within five years

Reliability of reported performance information

23. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. We were unable to obtain the information and explanations we considered necessary to satisfy ourselves as to the reliability of the reported performance information. This was due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information and the auditee's records not permitting the application of alternative audit procedures.

To improve the storm water drainage system in problem areas identified within the next financial year

Reliability of reported performance information

24. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable corroborating evidence could not be provided for 35% of the targets to assess the reliability of the reported performance information. The auditee's records did not permit the application of alternative audit procedures. This was due to limitations placed on the scope of our work by the auditee.

To improve the condition of the main internal roads and external roads throughout the municipality within the next five financial years.

Reliability of reported performance information

25. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not valid, accurate and complete when compared to the source information and evidence provided. This was due to a lack of standard operating procedures or documented system descriptions for the accurate recording of actual achievements and technical indicator descriptions for the accurate measurement, recording and monitoring of performance.

To provide and maintain Community Lighting Infrastructure

Reliability of reported performance information

26. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not valid, accurate and complete when compared to the source information and evidence provided. This was due to a lack of standard operating procedures or documented system descriptions for the accurate recording of actual achievements and technical indicator descriptions for the accurate measurement, recording and monitoring of performance.

To provide access to land for the purpose of housing and other developments throughout the next five years

Reliability of reported performance information

27. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information. This was due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information and the auditee's records not permitting the application of alternative audit procedures.

To ensure the provision of effective waste removal and landfill sites and improve waste management system in terms of waste collection

Usefulness of reported performance information

28. Performance indicators must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicators. A total of 20% of the indicators were not verifiable. This was because management was not aware of the requirements of the FMPPI.

Reliability of reported performance information

29. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable corroborating evidence could not be provided for 20% of the targets to assess the reliability of the reported performance information. The auditee's records did not permit the application of alternative audit procedures. This was due to limitations placed on the scope of our work by the auditee.

Achievement of planned targets

30. Refer to the annual performance report on pages XX to XX for information on the achievement of the 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 for the selected objectives reported in paragraphs 19 to 27 of this report.

Compliance with legislation

31. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

32. The local community was not consulted by means of a municipal wide structure for community participation in drafting the Integrated Development Plan (IDP), as required by section 28 of the MSA and Municipal planning and performance management regulation 15(1)(a)(i).
33. The annual performance report for the year under review did not include a comparison of the performance with set targets and a comparison with the previous financial year.

Budget

34. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

Financial statements, performance and annual reports

35. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.
36. Material misstatements of current assets, non-current liabilities, current liabilities, expenditure, revenue and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Audit committees

37. The audit committee did not respond to the Council on the issues raised in the audit reports of the Auditor-General, as required by section 166(2)(c) of the MFMA.



Expenditure management

38. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Consequences management

39. 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)(ii) of the MFMA.

Waste management

Operation of waste disposal sites without a waste management license

40. The municipality operated its wastewater treatment facility(s) without a license in contravention of section 20(b) of the National Environmental Management Waste Act, 2008 (Act No. 59 of 2008) (NEMWA), section 24(2)(a) of the National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA) and section 22(1)(b) of the National Water Act, 1998 (Act No. 36 of 1998) (NWA).

Failure to comply with the requirements or conditions of a waste management disposal license

41. The municipality's operational activities at its waste disposal sites(s) and wastewater treatment facility(s) contravened or failed to comply with the requirements of a waste management license, section 67(1)(f) and (h) of the NEMWA and section 151(1)(c) and (i) of the NWA.

Duty of care and remediation of environmental damage not exercised

42. The municipality's waste management and disposal activities contravened or failed to comply with the requirements of section 28(1) of the NEMA, section 19 of the NWA and sections 16(1)(c) and (d) and 26(1)(b) of the NEMWA.

No compliance, monitoring and enforcement of bylaws and other environmental legislative requirements

43. The municipality did not exercise its legislative and executive authority as required by section 11(3)(l) and (m) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) by managing, monitoring and enforcing environmental related bylaws to promote a safe and healthy environment.

Internal control

44. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on non-compliance with legislation included in this report.

Leadership

45. The internal policies and procedures did not adequately address the processes pertaining to the planning, monitoring, managing and reporting of performance information. The numerous instances of non-compliance with the MFMA, as detailed under the 'reporting on compliance with laws and regulations section' of this report are a result of a lack of adequate policies and procedures to guide the operations of the municipality.

Financial and performance management

46. There was a lack of oversight over reporting, compliance with laws and regulations and internal control as material adjustments had to be made to the financial statements.



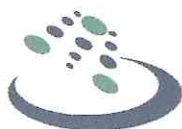
Governance

47. The risks which emanated from the prior year audit report was not fully addressed through the implementation of the risk management strategy adopted by the municipality.

Auditor-General

Rustenburg

30 November 2014



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence