



Report of the auditor-general to the North West provincial legislature and the council on the Kgetlengrivier Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Kgetlengrivier Local Municipality set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2015, 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 the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (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 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 qualified audit opinion.

Basis for qualified opinion

Property, plant and equipment

6. The municipality did not assess at each reporting date whether there is any indication that an asset may be impaired as required by GRAP 21 *Impairment on non-cash generating assets* as assets were found to be materially misstated due to the carrying amount of these assets exceeding its recoverable service amount. In addition, the municipality did not recognise all infrastructure and land assets in the current and prior period as the municipality did not maintain adequate records of all properties owned. I was unable determine the full extent of the resulting misstatement, as it was impracticable to do so. Consequently, I was unable to quantify the adjustments relating to property, plant and equipment of R433 524 851 (2014: R447 897 243), the depreciation and amortisation expense of R32 685 586 (2014: R29 598 650), inventories of R47 239 213 (2014: 47 508 716), investment property of R21 691 043 (2014: R21 691 043) or the accumulated surplus of R439 590 650 (2014: R475 556 519) in the financial statements that were necessary.

Irregular expenditure

7. Section 125 of the MFMA requires the disclosure of irregular expenditure incurred. The municipality made payments of R5 258 928 (2014: R8 266 515) in contravention with the supply chain management requirements which were not included in irregular expenditure disclosed. Consequently, irregular expenditure as per note 42 to the financial statements is understated by R13 525 443 (2014: R8 266 515). As the municipality did not quantify the full extent of the irregular expenditure, it was impracticable to determine the resultant understatement of irregular expenditure as per note 42 to the financial statements.

Qualified opinion

8. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Kgetlengrivier Local Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with GRAP and the requirements of the MFMA and the DoRA.

Emphasis of matters

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

Unauthorised and fruitless and wasteful expenditure

10. As disclosed in note 40 to the financial statements, unauthorised expenditure of R547 554 was incurred in the current year and the unauthorised expenditure in respect of prior years of R35 542 845 had not yet been dealt with in accordance with section 32 of the MFMA.
11. As disclosed in note 41 to the financial statements, fruitless and wasteful expenditure of R3 824 419 was incurred in the current year and fruitless and wasteful from prior years of R2 293 731 not yet been dealt with in accordance with section 32 of the MFMA.

Material losses

12. As disclosed in note 45 to the financial statements, material losses to the amount of R8 185 227 were incurred as a result of electricity units lost through the distribution process.



Restatement of corresponding figures

13. As disclosed in note 38 to the financial statements, the corresponding figures for 2014 have been restated as a result of errors discovered during 2015 in the financial statements of the municipality at, and for the year ended, 2014.

Additional matters

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

Unaudited disclosure notes

15. 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

16. 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.

Report on other legal and regulatory requirements

17. 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 findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

18. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priority presented in the annual performance report of the municipality for the year ended 30 June 2015:
 - Development priority 1: Basic service delivery on pages x to x
19. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
20. 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 development priority. 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).
21. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
22. The material findings in respect of the selected development priority are as follows:

Development priority 1: Basic service delivery

Usefulness of reported performance information

23. Section 41(c) of the Municipal Systems Act requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 21% of the reported indicators - and 26% of the reported targets were not consistent with those in the approved integrated development plan. This was due to a lack of oversight during the performance reporting processes throughout the year
24. The FMPPI requires that indicators be well defined and verifiable and targets be specific, measureable and time bound:
- A total of 100% of the indicators were not verifiable.
 - A total of 38% of targets were not specific in clearly identifying the nature and required level of performance and were not measurable.
 - A total of 34% of indicators were not clearly defined so that data can be collected consistently and is easy to understand and use.

This was due to a lack of proper systems and processes, technical indicator descriptions and capacity constraints within the performance monitoring unit.

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. I was unable to obtain the information and explanations I considered necessary to satisfy ourselves as to the reliability of the reported performance information. This was due to limitations placed on the scope of our work due to the absence of information systems and 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.

Additional matter

26. I draw attention to the following matter:

Achievement of planned targets

27. 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 development priority reported in paragraphs XX to XX of this report.

Compliance with legislation

28. 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 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

29. The performance of the municipality were not assessed during the first half of the financial



year, as required by section 72(1)(a)(ii) of the MFMA.

30. The performance management system and related controls were not maintained as it did not describe and represent the processes of performance monitoring, measurement, review, reporting and improvement and how it is conducted, organised and managed, as required by section 38 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) and regulation 7 of the Municipal planning and performance management regulations.

Budgets

31. 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.

Annual financial statements, performance and annual reports

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

Human resource management and compensation

33. The competencies of the senior managers were not assessed in a timely manner in order to identify and address gaps in competency levels as required by regulation 13 of the Municipal Regulations on Minimum Competency Levels.
34. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury as required by regulation 14(2)(a) of the Municipal Regulations on Minimum Competency Levels.
35. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies as required by regulation 14(2)(b) of the Municipal Regulations on Minimum Competency Levels.

Procurement and contract management

36. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by regulation 17(a) and (c) of the Supply Chain Management (SCM) regulations.
37. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by regulation 19(a) of the SCM regulations.

Expenditure management

38. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
39. 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.

Asset management

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



Internal audit

41. The internal audit unit did not function as required by section 165(2) of the MFMA, in that it did not advise the accounting officer and report to the audit committee on matters relating to risk and risk management and loss control.

Audit committee

42. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.

Consequence management

43. 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.
44. Authorisation of unauthorised expenditure was not done through an adjustment budget, as required by section 32(2)(a)(i) of the MFMA.

Environmental management

45. The municipality did not exercise its legislative and executive authority as required by the sections 11(3)(l) and (m) of the MSA by managing, monitoring and enforcing environmental related bylaws to promote a safe and healthy environment.
46. The municipality operated its waste disposal sites and wastewater treatment facilities 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).
47. The municipality's operational activities at its waste disposal sites and wastewater treatment facilities contravened or failed to comply with the regulatory norms and standards as required by sections 67(1)(f) and (h) of the NEMWA and section 151(1)(c) and (i) of the NWA.
48. 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.

Internal control

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

Leadership

50. Management's oversight did not adequately guide the financial and performance activities and failed to address all the shortcomings in internal controls that resulted in the material misstatements, service delivery matters and compliance deviations that have been reported. Furthermore the municipality did not have sufficient monitoring controls to ensure the proper implementation of the overall performance management system process of planning, budgeting, implementation and reporting.



Financial and performance management

51. Management's internal controls and processes over the preparation and presentation of financial statements were not able to ensure that the financials were free from material misstatements.

Governance

52. Although the audit committee and internal audit was in place and complied with relevant legislation, their inputs were not implemented by the municipality. The internal audit has not been assisting the municipality with the draft of the risk assessment nor the compilation of an action plan in response to the prior year audit findings.

Auditor - General

Rustenburg

30 November 2015



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence