



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Report of the auditor-general to the North West provincial legislature and the council on 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 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget with actual information 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 review the useful lives and residual values or assess the impairment of property, plant and equipment as required by GRAP 17 *property, plant and equipment*. Due to the status of the accounting records, it was impracticable to quantify the total adjustments required to property, plant and equipment of R1 037 394 788 (2014: R941 614 840) as disclosed in note 3 to the financial statements or the depreciation and amortisation expense of R67 341 989 (2014: R64 814 883) included in the statement of financial performance.

Consumer debtors

7. The municipality did not correctly provide for the debt impairment as required by GRAP 104 *financial instruments*. I was unable to quantify the full extent of the resulting misstatement to the financial statements as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to consumer debtors of R228 139 329 (2014: R219 356 842) as disclosed in note 9 to the financial statements or the debt impairment of R59 110 887 (2014: R65 865 525) as disclosed in the statement of financial performance were necessary.

Commitments

8. I was unable to obtain sufficient appropriate audit evidence for approved and contracted commitments due to an inadequate contract management system. The municipality's system did not allow the performance of alternative procedures. Consequently I was unable to determine whether any adjustment to approved and contracted commitments of R38 248 715 (2014: R84 404 180) as disclosed in note 33 the financial statements, was necessary.

Irregular expenditure

9. Section 125 of the MFMA requires the disclosure of irregular expenditure incurred. The municipality made payments of R39 016 936 in contravention with the supply chain management requirements which were not included in irregular expenditure. As the municipality did not quantify the full extent of the irregular expenditure, it was impracticable to determine the resultant understatement of irregular expenditure of R296 872 958 as disclosed in note 41 to the financial statements.

Provisions

10. The municipality did not include all landfill sites in their provision for environmental rehabilitation in accordance GRAP 19 *provisions, contingent liabilities and contingent assets*. I was unable to determine the full extent of the misstatement of the provision for the environmental rehabilitation of landfill sites of R15 963 099 (2014: R15 874 545) as disclosed in the statement of financial position and note 10 to the financial statements as it was impracticable to do so.

Qualified opinion

11. In my opinion, except for the possible 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 Moses Kotane Local Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with SA standards of GRAP and the requirements of the MFMA and the DoRA.



Emphasis of matters

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

Unauthorised and fruitless and wasteful expenditure

13. As disclosed in note 39 to the financial statements, unauthorised expenditure of R6 291 848 was incurred in the current year.

14. As disclosed in note 40 to the financial statements, fruitless and wasteful expenditure of R408 848 was incurred in the current year and fruitless and wasteful expenditure from prior years of R9 703 835 had not yet been dealt with in accordance with section 32 of the MFMA.

Restatement of corresponding figures

15. As disclosed in note 35 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of an error discovered during 2015 in the financial statements of the Moses Kotane Local Municipality at, and for the year ended, 30 June 2014.

Additional matters

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

Unaudited disclosure notes

17. 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

18. 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

19. 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

20. 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: Infrastructure and technical services on pages x to x

21. I evaluated the reported performance information against the overall criteria of usefulness and reliability.



22. 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 priorities. 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).
23. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
24. The material findings in respect of the selected development priority are as follows:

Development priority: Infrastructure and technical service

Usefulness of reported performance information

25. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan (IDP) to form the basis for the annual performance report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 69%, 86% and 90% of the reported objectives, indicators and targets in the annual performance report were not consistent with those in the approved IDP. This was due to a lack of information systems recording and documenting actual achievements against targets.
26. The FMPPI requires that indicators be well defined and verifiable and targets be specific, measureable and time bound:
- A total of 80% of the targets were not specific.
 - The required performance for 83% of the targets could not be measured.
 - A total of 83% of the targets were not time bound.
 - A total of 81% of the indicators were not well defined.
 - A total of 81% of the indicators were not verifiable.

This was because management was not trained in the FMPPI requirements and proper technical data descriptions for indicators were not specified. Furthermore a proper system to collect core data on a consistent basis and a process to analyse this information was not in place.

Reliability of reported performance information

27. The FMPPI requires department 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 a lack of standard operating procedures for the accurate recording of actual achievements, a lack of technical indicator descriptions for the accurate measurement, recording and monitoring of performance and the fact that the municipality could not provide sufficient appropriate evidence in support of the reported performance information.

Additional matter

28. I draw attention to the following matter:

Achievement of planned targets

29. Refer to the annual performance report on pages XX to XX and 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 priorities reported in paragraphs 25 to 27 of this report.

Unaudited supplementary information

30. The supplementary information set out on pages XX to XX does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

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 compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Annual financial statements and annual report

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 of non-current assets and current assets, liabilities, revenue, expenditure and 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 qualified audit opinion.
33. The 2013-14 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.

Strategic planning and performance management

34. The service delivery and budget implementation plan (SDBIP) for implementing the municipality's delivery of municipal services and annual budget did not indicate projections for each month of the revenue to be collected, by source and the operational and capital expenditure, by vote and service delivery targets and performance indicators for each quarter as required by section 1 of the MFMA.
35. The annual performance report for the year under review did not include reliable measures taken to improve performance, as required by section 46(1)(c) of the MSA.
36. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance planning, monitoring, measurement, review, reporting and improvement and how it is conducted, organised and managed, including determining the roles of the different role-players, as required by section 38 of the MSA and regulation 7 of the MPPMR.

Audit committee

37. The audit committee did not advise the council and accounting officer on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.
38. The audit committee did not review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the entity, its efficiency and effectiveness and its overall level of compliance with legislation, as required by section 166(2)(b) of the MFMA.
39. 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.
40. The audit committee did not review the municipality's performance management system and make recommendations to the council, as required by regulation 14(4)(a)(ii) of the MPPMR.
41. The audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by regulation 14(4)(a)(iii) of the MPPMR.

Consequence management

42. 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)(ii) of the MFMA.

Conditional grants

43. The municipality did not evaluate its performance in respect of programmes or functions funded by the Municipal Systems Improvement Grant and the Local Government Financial Management Grant allocations, as required by section 12(5) of the DoRA.

Expenditure management

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

Human resources

45. 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.
46. 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.

Procurement and contract management

47. Sufficient appropriate audit evidence could not be obtained that bid specifications for procurement of goods and services through competitive bids were drafted in an unbiased manner that allowed all potential suppliers to offer their goods or services, as per required by SCM regulation 27(2)(a).
48. Sufficient appropriate audit evidence could not be obtained that bid specifications were drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).



49. Contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act.
50. Awards were made to providers who are in the service of other state institutions or whose directors or principal shareholders are in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44.

Environmental management

51. The municipality did not exercise its legislative and executive authority as required by the section 11(3)(l) and (m) of the MSA by managing, monitoring and enforcing environmental related bylaws to promote a safe and healthy environment.
52. 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).
53. 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.
54. 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

55. 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

56. Leadership did not adequately exercise their oversight responsibility regarding financial and performance reporting, compliance with legislation as well as related internal controls.

Financial and performance management

57. Controls to ensure that information in the financial statements and the report on predetermined objectives were reliable before submission for audit were ineffective.

Governance

58. The effectiveness of the audit committee was compromised due to the recommendations made by internal audit not being fully implemented.

Auditor-General

Rustenburg

30 November 2015



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