

Report of the auditor-general to the Free State Legislature and the council on the Tokologo Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Tokologo Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2016, 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 Africa Standards of Generally Recognised Accounting Practise (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act, 2003 (Act no. 56 of 2003) (MFMA) and the Division of Revenue Act, 2015 (Act No. 1 of 2015) (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 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 Tokologo Local Municipality as at 30 June 2016 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 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 44 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of errors discovered during 2015-16 in the financial statements of the municipality at, and for the year ended, 30 June 2015.

Material losses

9. As disclosed in note 51 to the financial statements, material electricity losses to the extent of 44% (2015: 49%) were incurred as a result of distribution losses as a result of line losses, theft and vandalism.

Material impairments

10. As disclosed in notes 4 to the financial statements, management provided for the impairment of consumer and other receivables of R81 361 419 (2015: R70 789 856).

Irregular expenditure

11. As disclosed in note 50 to the financial statements, the municipality incurred irregular expenditure of R 44 521 442 (2015: R 20 598 865) in 2015-16 due to non-compliance with supply chain management (SCM) requirements.

Unauthorised expenditure

12. As disclosed in note 48 to the financial statements, the municipality incurred unauthorised expenditure of R 49 954 385 (2015: R 33 356 720) during 2015-16 due to expenditure that exceeded the limits provided for in the main divisions of the approved budget.

Going concern

13. Note 46 to the financial statements indicates that the municipality's current liabilities exceeded its current assets by R 551 349 600 as at 30 June 2016. In addition, the municipality owed Eskom R 28 886 675 (2015: R 3 285 953) as at 30 June 2016, which was long overdue. These conditions, along with other matters set forth in note 46, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to meet its obligations as they fall due and to achieve service delivery objectives as outlined in the service delivery business implementation plan.

Additional matter

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

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 on it.
16. The appropriation statement set out on pages ... to ... does not form part of the financial statements and is presented as additional information. I have not audited this statement and, accordingly, I do not express an opinion on it.

Report on other legal and regulatory requirements

17. In accordance with the Public Audit Act, 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 key performance areas 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 them.

Predetermined objectives

18. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected key performance areas presented in the annual performance report of the municipality for the year ended 30 June 2016:

- Key performance area (KPA): Basic service delivery and infrastructure development on pages xx to xx

19. 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 key performance areas. 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).

20. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

21. The material findings in respect of the selected key performance area are as follows:

KPA: Basic service delivery and infrastructure development

Usefulness of reported performance information

22. The FMPPI requires performance indicators to be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use. A total of 36% of the indicators were not well verifiable.

Reliability of reported performance information

23. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not reliable when compared to the source information or evidence provided.

Additional matters

24. I draw attention to the following matters:

Achievement of planned targets

25. 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 key performance area reported in paragraphs 21 to 23 of this report.

Unaudited supplementary schedules

26. The supplementary information set out on pages xx to xx do 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 on them.

Compliance with legislation

Annual financial statements, performance and annual reports

27. 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, current assets, non-current liabilities and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Revenue management

28. An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA.

Procurement and contract management

29. Goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
30. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c).

Expenditure management

31. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA.
32. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.
33. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
34. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

Asset Management

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

Consequence management

36. Unauthorised, irregular and fruitless expenditure by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.
37. Irregular expenditure by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA and municipal budget and reporting regulation 75(1).
38. Fruitless and wasteful expenditure by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA and municipal budget and reporting regulation 75(1).

Internal control

39. 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 compliance with legislation included in this report.

Leadership

40. Leadership did not always take prompt and adequate action to address weaknesses in internal control which resulted in non-compliance with applicable legislation and gave rise to unauthorised, irregular expenditure and

fruitless and wasteful expenditure. Management did not always properly analyse the control weaknesses and implement appropriate follow-up actions that adequately addressed the root cause timeously.

Financial and performance management

41. Effective performance systems processes and procedures, and the management thereof, had not been adequately developed and implemented as a result of the slow response to audit findings.

Governance

42. The audit committee did not ensure that there was the required impact in addressing the control weaknesses by promptly initiating steps based on the risk assessment performed to address the non-compliance with laws and regulations as well as ensuring that there is consequences for transgressing legislation requirements which resulted in an increase in the irregular expenditure.

Bloemfontein

30 November 2016



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence