



AUDITOR-GENERAL  
SOUTH AFRICA

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# AUDITOR'S REPORT: COVER PAGE

# Report of the auditor-general to the Free State Provincial Legislature and the council on the Setsoto Local Municipality

## Report on the financial statements

### Introduction

1. I have audited the financial statements of the Setsoto Local Municipality set out on pages ... to ..., which comprise the statement of financial performance, statement of changes in net assets, cash flow statement and 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, 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 Setsoto 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

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

### Restatement of corresponding figures

7. As disclosed in note 56 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of reclassifications that had to be made/ errors discovered during 2015-16 in the financial statements of the municipality at, and for the year ended, 30 June 2015.

### Material impairments

8. As disclosed in note 5 to the financial statements, a provision for the impairment of debtors amounting to R148 406 866 (2015: R127 785 657) was made with regard to consumer debts amounting to R291 591 158 (2015: R246 820 305).

### Going concern

9. Note 55 to the financial statements indicates that the municipality incurred a deficit of R126 711 817 (2015: R104 623 089). Furthermore, debtors increased from R119 034 648 to R143 184 292 and payables from R52 922 872 to R71 819 017. These conditions, along with other matters as set forth in note 55, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern and to meet its service delivery objectives.

### Irregular expenditure

10. As disclosed in note 48 to the financial statements, the municipality incurred irregular expenditure of R2 188 129 (2015: R33 449 533) during the year under review, mainly due to non-compliance with supply chain management requirements.

## Additional matters

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

## Unaudited supplementary information

12. The municipality provided supplementary information in the financial statements on whether resources were obtained and used according to the legally adopted budget, in accordance with GRAP 1, *Presentation of financial statements*. The supplementary budget information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. Accordingly, I do not express an opinion thereon.

## Unaudited disclosure notes

13. 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 regulatory requirements

14. 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 of 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 these matters.

## Predetermined objectives

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected key performance area presented in the annual performance report of the municipality for the year ended 30 June 2016:
  - Key performance area 1: Infrastructure and service delivery on pages ... to ...
16. 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 area. 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*.
17. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
18. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected key performance area.

## **Additional matters**

19. Although I raised no material findings on the usefulness and reliability of the reported performance information for the selected key performance area, I draw attention to the following matters:

### **Achievement of planned targets**

20. Refer to the annual performance report on pages x to x and x to x for information on the achievement of the planned targets for the year.

### **Adjustment of material misstatements**

21. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information for key performance area 1: Infrastructure and service delivery. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

## **Compliance with legislation**

22. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on 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 information**

23. The key performance indicators set by the municipality did not include indicators on the percentage of households with access to basic levels of water, sanitation and electricity, as required by section 43(2) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) and municipal planning and performance management regulation 10(a).

## **Financial statements and annual report**

24. The annual performance report for the year under review did not include measures taken to improve performance, as required by section 46(1)(c) of the MSA.

## **Expenditure management**

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

## **Internal control**

27. 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

28. Inadequate review and monitoring by management during the preparation of the annual report on predetermined objectives resulted in material findings on predetermined objectives.

## Financial and performance management

29. Formal processes to ensure compliance with key legislation did not prevent non-compliance with laws and regulations in certain cases. Consequences management was not adequate in these instances.

Bloemfontein

30 November 2016



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