

# **Auditor's report**

Dr JS Moroka Local Municipality

30 June 2015

# Report of the auditor-general to the Mpumalanga Provincial Legislature and the council on the Dr JS Moroka Local Municipality

## Report on the financial statements

### Introduction

1. I have audited the financial statements of the Dr JS Moroka Local Municipality set out on pages ... to ..., 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 statement of comparison of budget information 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 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 municipality'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 municipality'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. In terms of GRAP 17 *Property, plant and equipment*, an entity shall recognise items of property, plant and equipment that qualify for recognition as assets in the financial statements. Contrary to this requirement, the municipality did not have an adequate system to maintain records of property, plant and equipment, which resulted in property, plant and equipment being misstated. I was unable to locate infrastructure assets amounting to R637 877 760 (2013-14: R170 558 039) recorded in the asset register due to the inadequacy of the municipality's fixed asset register. I could also not locate assets selected from the floor in the asset register.
7. I was unable to obtain sufficient appropriate audit evidence for the unreconciled difference of R554 416 599 between the prior year closing balance and the current year opening balance of property, plant and equipment disclosed in note 5 to the financial statements, and I could not confirm the disclosure by alternative means. I was therefore unable to determine whether any further adjustment was necessary to property, plant and equipment in the financial statements. Furthermore, there were differences amounting to R6 189 359 between the asset register and the financial statements.
8. Consequently, I was unable to determine whether any adjustments were necessary relating to property, plant and equipment of R1 455 067 870 (2013-14: R1 354 316 434) as disclosed in note 5 to the financial statements.

### Commitments

9. The municipality did not accurately disclose its contractual commitments in accordance with GRAP 1 *Presentation of financial statements*. The commitment register and the assets under construction had unreconciled differences. Consequently, commitments were understated by R36 911 861 (2013-14: R143 558 887).

### Irregular expenditure

10. I was unable to obtain sufficient appropriate audit evidence for irregular expenditure, as internal controls had not been established to recognise and investigate irregular expenditure identified in the previous year. I could not confirm by alternative means whether all irregular expenditure had been recorded and investigated. Consequently, I was unable to determine whether any adjustment was necessary to the irregular expenditure of R215 102 521 as disclosed in note 47 to the financial statements.

### Cash flow statement

11. I was unable to obtain sufficient appropriate audit evidence for the undefined differences in amounts included in the cash flows from operating activities amounting to R66 980 638 in the cash flow statement. The municipality could not provide sufficient calculations to substantiate these amounts. I was unable to confirm these amounts by alternative means. Consequently, I was unable to determine whether any adjustments to the cash flow statement were necessary.

## **Qualified opinion**

12. 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 Dr JS Moroka 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 DoRA.

## **Emphasis of matters**

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

## Restatement of corresponding figures

14. As disclosed in note 38 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of an error discovered during 2014-15 in the financial statements of the municipality at, and for the year ended, 30 June 2014.

## Material impairments

15. As disclosed in note 12 to the financial statements, the receivables balance was significantly impaired. The impairment of consumer debtors amounted to R144 665 470 (2013-14: R135 042 924), which represented 69% (2013-14: 81%) of the total consumer debtors. The contribution to the provision for debt impairment was R10 616 394 (2013-14: R11 734 642).

## **Additional matters**

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

## Unaudited supplementary schedules

17. The supplementary information set out on pages ... to ... 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.

## Unaudited disclosure notes

18. 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

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:
  - KPA 2: basic service delivery and infrastructure management, on pages ... to ...
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 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).
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:

### **Basic service delivery and infrastructure management**

#### Usefulness of reported performance information

25. A total of 47% of the reported objectives were not consistent with those in the approved integrated development plan. This was due to a lack of monitoring and review by management.
26. The period or deadline for delivery of targets should be specified, as required by the FMPPI. A total of 54% of the targets were not time bound. This was because management did not adhere to the requirements of the FMPPI.

## 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. The reported performance information was not valid, accurate and complete when compared to the source information or evidence provided. This was due to a lack of standard operating procedures or documented system descriptions for the accurate recording of actual achievements; technical indicator descriptions for the accurate measurement, recording and monitoring of performance; monitoring of the completeness of source documentation in support of actual achievements; and frequent review of the validity of reported achievements against source documentation.

## **Additional matter**

28. I draw attention to the following matter:

### Achievement of planned targets

29. Refer to the annual performance report on pages ... to ... 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 25 to 27 of this report.

## **Compliance with legislation**

30. 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**

31. The performance management system did not provide for policies and procedures to take steps for improvement where performance targets were not met, as required by section 41(1)(d) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA).
32. The service delivery and budget implementation plan, used 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), as required by section 1 of the MFMA.
33. The performance management system and related controls were inadequate, as it did not describe and represent the processes of performance monitoring, measurement, reporting and improvement as well as how it is to be conducted, organised and managed, as required by section 38 of the MSA and municipal planning and performance management regulation 7.
34. 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.

## **Annual financial statements, performance report and annual report**

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. Material misstatements of non-current assets, 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 resulted in the financial statements receiving a qualified audit opinion.

## **Audit committee**

36. The audit committee did not advise the council on matters relating to compliance with legislation, performance management and performance evaluation, as required by section 166(2)(a)(vii) of the MFMA.

## **Internal audit**

37. 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 the audit committee on matters relating to internal controls, accounting procedures and practices as well as loss control.
38. The internal audit unit did not advise the accounting officer and report to the audit committee on matters relating to compliance with DoRA and other applicable legislation, as required by section 165(2)(b)(vii) of the MFMA.

## **Procurement and contract management**

39. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
40. Sufficient appropriate audit evidence could not be obtained that all contracts had been awarded in accordance with the legislative requirements and a procurement process that is fair, equitable, transparent and competitive, as all requested documents were not submitted for auditing.

## **Human resource management and compensation**

41. The municipality did not develop and adopt appropriate systems and procedures to monitor, measure and evaluate the performance of staff, in contravention of section 67(d) of the MSA.

## **Expenditure management**

42. Reasonable steps were not taken to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
43. Payments and withdrawals were made from the municipality's bank account without the approval of the accounting officer, the chief financial officer or a properly authorised official, contrary to section 11(1) of the MFMA.

## **Asset management**

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

## **Consequence management**

45. Irregular as well as fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

## **Internal control**

46. 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 basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

## **Leadership**

47. The accounting officer did not establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities.
48. Management did not adequately monitor the implementation of action plans to address internal control deficiencies.

## **Financial and performance management**

49. Management did not prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information.
50. Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored.

## **Governance**

51. The internal audit unit did not conduct all the internal audits or reviews of performance information and management, focusing on compliance aspects as well as the usefulness and reliability of the reported performance information.
52. Non-compliance with laws and regulations could have been prevented had compliance been adequately reviewed and monitored by the internal audit unit and the audit committee.



## Other reports

### Investigations

53. An independent consulting firm performed an investigation at the request of the municipality, which covered the period 8 September 2014 to 9 September 2014. The investigation was initiated based on an allegation of fraud involving an unauthorised transfer. The investigation was concluded in October 2014 and no criminal proceedings were instituted against any employees.

*Auditor-General*

Mbombela

30 November 2015



AUDITOR - GENERAL  
SOUTH AFRICA

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