

# **Auditor's report**

Lepelle-Nkumpi Local Municipality

30 June 2017

# Report of the auditor-general to Limpopo Provincial Legislature and the council: Lepelle – Nkumpi Local Municipality

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the Lepelle-Nkumpi Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matter described in the basis for qualified opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Lepelle-Nkumpi Local Municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended 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, 2016 (Act No. 3 of 2016) (DoRA).

### Basis for qualified opinion

#### Property plant and equipment

3. The municipality did not recognise all items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. I identified land belonging to the municipality that was not included in the underlying records. There were no satisfactory alternative means that I could perform to quantify the extent of the understatement. Consequently, I was unable to determine whether any adjustments to property, plant and equipment stated at R586 116 377 (2015- 16: R569 682 286) in the financial statements was necessary.

### Context for the opinion

4. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
5. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **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 35 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2017.

### **Material impairments – consumer debtors**

9. As disclosed in note 5 to the financial statements, the municipality has an impairment provision to the amount of R100 065 573 as at 30 June 2017 as a result of the consumer debtors' recoverability being doubtful.

### **Irregular expenditure**

10. As disclosed in note 38 to the financial statements, irregular expenditure to the amount of R129 229 256 was incurred, as a proper tender process had not been followed.

### **Other matters**

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

### **Unaudited disclosure notes**

12. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. 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**

13. The supplementary information as 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.

### **Responsibilities of the accounting officer**

14. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and 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.
15. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable,

matters relating to going concern and using the going concern basis of accounting unless the accounting officer either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

### **Auditor-general's responsibilities for the audit of the financial statements**

16. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
17. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

<b>Report on the audit of the annual performance report</b>
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### **Introduction and scope**

18. 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 material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
19. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators/measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
20. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2017:

<b>Development priorities</b>	<b>Pages in the annual performance report</b>
KPA 2: Local economic development	x – x
KPA 3: Basic service delivery and infrastructure development	x – x

21. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable

and relevant, and 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 usefulness and reliability of the selected development priorities are as follows:

**Development priority 2: Local economic development**

**Number of EPWP job opportunities created through social and environment and culture sectors by end of June 2017**

23. The target was reported as 500 EPWP jobs while the target was approved as 150 EPWP jobs in the service delivery and budget implementation plan. This is not in line with the requirements of section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

**Various indicators**

24. The reported achievements of the indicators listed below were misstated, as the evidence provided did not agree with the reported achievements as follows:

Indicator	Reported achievement	Audited achievement	Difference
Number of EPWP job opportunities created through Social and Environment and Culture Sectors by end of June 2017	33	154	121
Number of seminars or workshops conducted on business registrations during 1st and 4th quarter	2	1	1
Number of SMMEs or Cooperatives linked to financial support (one per quarter)	4	105	101
Number of LED and Tourism promotional show and exhibitions attended during the 1st, 3rd and 4 <sup>th</sup>	5	8	3

**Development priority 3: Basic service delivery and infrastructure development**

**Number of street lights installed along the main road from unit F to A during the fourth quarter**

25. The indicator was reported as *Number of street lights installed along the main road from unit F to A during the fourth quarter*, while the indicator was approved as *Number of households electrified during fourth quarter at unit F and A* in the Service delivery and budget implementation plan. This is not in line with the requirements of section 41(c) of the MSA.
26. In addition, sufficient appropriate audit evidence could not be provided for the reported achievement for target 0.8km of public lights installed. I was also unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievement of 0.8km of public lights installed.

**Various indicators**

27. The source information and method of calculation for the achievement of the planned indicators listed below was not clearly defined, as required by the Framework for Managing Programme Performance Information (FMPPi):

No.	Indicator as per the SBDIP and APR	Target as per the SDBIP and APR
1	Number of km of access road upgraded from gravel to block paving and storm water control at Malakabaneng village.	Development of designs for Makalaneng access road from gravel to access road block paving.
2	Number of km of access road upgraded from gravel to block paving and storm water control at Hweleshaneng village	Development of designs for Hweleshaneng access road from gravel to access road block paving and storm water control.
3	Number of km of access road upgraded from gravel to block paving and storm water control at Mooiplaas village (Multiyear).	Development of Designs for Mooiplaas village access road from gravel to access road block paving and storm water
4	Number of km of access road upgraded from gravel to block paving and storm water control at Serobaneng	Development of Designs for Serobaneng access road from gravel to access road block paving and storm water control(Multiyear).
5	Number of km of access road upgraded from gravel to block paving and storm water control at Hwelereng village	Development of designs for Hwelereng access road from gravel to access road block paving and storm water control (multi-year).
6	Number of km of new storm water control constructed at Mathibela	Development of Designs for Mathibela Stormwater (multi-year).
7	Number of km of storm water control constructed at Rakgoatha	Development of Designs for Rakgoatha Stormwater
8	Number of km of storm water control constructed at Sehlabeng	Development of Designs for Sehlabeng Storm water (multi-year).
9	Number of km of storm water control constructed at Mogotlane	Development of Designs for Mogotlane stormwater.
10	Number of households and businesses provided with weekly waste collection in 4 villages (Matome, Makweng, Rakgoatha and Mathibela)	12 000 households provided with waste collection in rural areas
11	Number of internal streets upgraded and stormwater at Mamaolo to Mampiki/Mogodi	0.7 kilometres
12	Number of municipal waste disposal infrastructure drilled during fourth quarter	Mathibela waste transfer station drilling and equipping of boreholes and electricity
13	Number of km of road and storm water control constructed at Mathabatha (Mashadi)	Development of designs for Mathabatha (Mashadi) road and stormwater.

#### Various indicators

28. The reported achievements of the indicators listed below were misstated, as the evidence provided did not agree with the reported achievements as follows:

Indicator	Reported achievement	Audited achievement	Difference
Number of households electrified at Rakgoatha village during fourth quarter	749	264	(485)
Number of km of road tarred from Zone S to Q	0	2	2
Number of illegal dumping spots cleaned	5	4	(1)
Number of electronic waste information reports submitted to the South African Waste Information System quarterly	12	9	(3)

### Other matters

29. I draw attention to the matters below.

### Achievement of planned targets

30. Refer to the annual performance report on page(s) x to x; x to x for information on the achievement of planned targets for the year and explanations provided for the under / overachievement of a significant number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph(s) [x; x; x] of this report.

### Adjustment of material misstatements

31. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 2: local economic development and KPA 3: basic service delivery and infrastructure development. As management did not correct the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

## Report on audit of compliance with legislation

### Introduction and scope

32. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

33. The material findings on compliance with specific matters in key legislations are as follows:

### Strategic planning and performance management

34. Amendments to the Integrated Development Plan (IDP) were made without making the proposed amendments available for public comment and consultation with the district municipality as required by Municipal Planning and Performance Management Regulations 3(4)(b), 3(6)(a), and 15(1)(ii).

## **Budgets**

35. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R1 386 450, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending on the budget. Unauthorised expenditure amounting to R746 701 was incurred on the project on electrification of Rakgoatha.

## **Expenditure management**

36. Effective steps were not taken to prevent irregular expenditure amounting to R129 229 256 as required by section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by bids not advertised for the minimum required period, non-compliance on the composition of bid adjudication committee, and subcontractor not appointed as per bid specification.
37. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R114 981, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties on overdue Eskom and Sars payments.

## **Asset management**

38. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
39. An effective system of internal control for assets was not in place, as required by section 63(2) (c) of the MFMA.

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

40. 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 and the supporting records were provided subsequently, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

## **Procurement and contract management**

41. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.
42. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, in contravention of section 116(2)(c) of the MFMA.
43. Awards were made to providers whose directors / principal shareholders were in the service of other state institutions, in contravention of MFMA 112(j) and Supply Chain Management (SCM) regulation 44. Similar awards were identified in the previous year



and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).

44. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of the code of conduct for councillors issued in terms of the MSA.

#### **Consequence management**

45. Unauthorised 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) of the MFMA.
46. Irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA and the Municipal budget and reporting regulations 75(1).
47. 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)(b) of the MFMA and the Municipal budget and reporting regulations 75(1).

#### **Other information**

48. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report thereon and those selected development priorities presented in the annual performance report that have been specifically reported on in the auditor's report.
49. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
50. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
51. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate, however, if it is corrected this will not be necessary.

#### **Internal control deficiencies**

52. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. 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**

- 53. Management did not perform adequate review of the financial and performance reporting. This has resulted in the annual financial statements and annual performance report containing material misstatements.
- 54. The municipality did not implement effective human resource management to ensure that performance is monitored.
- 55. Management did not adequately/fully develop and monitor the implementation of action plans to address internal control deficiencies. The municipality is still in the process of addressing matters that relate to the registration of land that was raised in the prior year.

### **Financial and performance management**

- 56. The accounting officer did not adequately review and monitor compliance with laws and regulations, resulting in numerous findings of non-compliance with legislation.

### **Governance**

- 57. Those charged with governance did not provide adequate oversight over the effectiveness of the internal control environment, including risk management, financial and performance reporting and compliance with laws and regulations.

*Auditor - General*

Polokwane

30 November 2017



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## **Annexure – Auditor-general’s responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priorities and on the municipality’s compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in the auditor’s report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
  - obtain an understanding of internal control relevant to the audit 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.
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
  - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Lepelle-Nkumpi Local Municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and here applicable, related safeguards.