

Report of the auditor-general to Limpopo provincial legislature and the council of Lephalale Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Lephalale 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 and cash flow statement and the statement of comparison of budget information with 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, the financial statements present fairly, in all material respects, the financial position of the 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 opinion

3. 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.
4. 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

6. 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 45 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.

Uncertainty relating to the future outcome of exceptional litigation

8. With reference to note 43 to the financial statements, the municipality is the defendant in a number of lawsuits. The municipality is opposing the claims as it believes the claims to be fraudulent. The ultimate outcome of the matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements

Material losses

9. As disclosed in note 52 to the financial statements, material losses of 11 927 282 units of electricity amounting to R11 211 645 (2015- 2016: 14 400 596 units to the amount of R14 112 584) was incurred.

Material impairment of debts

10. As disclosed in note 9, 11 and 12 to the financial statements, the municipality made material impairments to the amount of R76 405 050 for receivables from exchange and non-exchange transactions as a result of inadequate collection practises

Material underspending of the conditional grant

11. As disclosed in note 15 to the financial statements, the municipality has materially underspent the budget for improved access to affordable and sustainable basic services to the amount of R22 080 128.

Irregular expenditure

12. As disclosed in note 48 to the financial statements, irregular expenditure to the amount of R39 371 840 was incurred, as a proper procurement process had not been followed and the unspent conditional grant not supported by the cash in the bank.

Unauthorised expenditure

13. As disclosed in note 46 to the financial statements, unauthorised expenditure to the amount of R17 053 570 was incurred in the current year due to the municipality overspending on its approved budget

Other matter

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

Unaudited supplementary schedules

15. The supplementary information set out on pages 73 to 80 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

16. 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.

Responsibilities of accounting officer for the financial statements

17. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with 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.
18. 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

19. 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.
20. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

21. 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 objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
22. 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 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.
23. 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 objectives presented in the annual performance report of the municipality for the year ended 30 June 2017:

Objectives	Pages in the annual performance report
Key performance area 2 – Service delivery and infrastructure development	x – x

24. I performed procedures to determine whether the reported performance information was whether performance 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.

25. The material findings in respect of the usefulness and reliability of the selected objectives are as follow:

Key performance area 2 – Service delivery and infrastructure development

The Framework for Managing Programme Performance Information (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 achievements of the indicators listed below were materially misstated, as the evidence provided was inadequate, duplicate, invalid and incomplete:

Performance indicator	Reported achievement	Audited value
Inadequate Percentage households with access to basic level of electricity	97%	Unknown
Percentage households with access to basic level of sanitation YTD	95%	Unknown
Number of urban household provided with weekly refuse removal	19 942	Unknown
Percentage households with access to basic level of solid waste removal	78%	Unknown
Percentage households with access to basic level of water YTD	95%	Unknown

Other matters

26. I draw attention to the matters below.

Achievement of planned targets

27. Refer to the annual performance report on page x to x for information on the achievement of planned targets for the year and explanations provided for the under and

overachievement of a significant number of targets. This information should be considered in the context of the adverse opinions expressed on the usefulness and reliability of the reported performance information in paragraph(s) [x; x; x] of this report.

Adjustment of material misstatements

28. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 2: Service delivery and infrastructure development. Management subsequently corrected some of the materials misstatements. Those that were not corrected are included in the basis for adverse opinion paragraphs.

Report on audit of compliance with legislation

Introduction and scope

29. 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.
30. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements, performance and annual reports

31. 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 liabilities, non-current liabilities, expenditure, commitments, unauthorised expenditure, irregular expenditure and cash flow statement identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

32. Some quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by Supply Chain Management regulation (SCM regulation) 13(c). Similar non-compliance was also reported in the prior year.
33. Persons in the service of the municipality who 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 staff members issued in terms of the Municipal Systems Act, 2000 (Act No. 32 of 2000).
34. Bid documentation for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by Preferential Procurement Regulation 9(1).

35. Commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content as required by Preferential Procurement Regulation 9(1).
36. Commodities designated for local content and production, were procured from suppliers who did not meet the prescribed minimum threshold for local production and content, as required by Preferential Procurement Regulation 9(5).

Expenditure management

37. Effective steps were not taken to prevent irregular expenditure amounting to R39 371 840, as disclosed in note 48 to the annual financial statements, as required by section 62(1)(d) of the MFMA.

Budget

38. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R17 053 570, as disclosed in note 46 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

Conditional grant

39. The conditional grant was not spent in accordance with the applicable grant framework, which is in contravention of section 17(1) of the DORA.

Consequence management

40. Fruitless and wasteful expenditure incurred by the municipality in the prior year was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA

Other information

41. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the audit committee's report. The other information does not include financial statements, the auditor's report thereon and those selected presented in the annual performance report that have been specifically reported on in the auditor's report.
42. 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.
43. 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 programmes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
44. 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

45. 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 findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

46. The accounting officer reviewed the annual financial statements and the annual performance report with the assistance of the audit committee prior to their submission for audit, but a number of material misstatements on financial statements and annual performance report were still identified.

Financial and performance management

47. Daily and monthly internal controls measures in place are not adequate to identify, prevent and correct all the errors and misstatements in the financial statements and annual performance report to ensure compliance with the relevant laws and regulations applicable to the municipality for reporting.

Governance

48. Those charged with governance (internal audit, council and audit committee) did not provide adequate oversight over the effectiveness of the internal control environment over financial statement and reported performance information.

Auditor-General.

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 programmes objectives 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 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 Lephalale 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.
 - [obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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.