

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

## Report on the audit of the financial statements

### Qualified opinion

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 2017, 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 to the financial statements, including a summary of significant accounting policies.
2. 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 2017 and its financial performance and cash flows for the year then ended, in accordance with the 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, 2016 (Act No. 3 of 2016) (DoRA).

### Basis for qualified opinion

#### Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment due to an unreconciled difference of R117 294 028 (2015-16: R18 565 248) between the fixed asset register and the annual financial statements.
4. In addition, some of the infrastructure assets selected from the asset register could not be physically verified, as the asset register did not contain adequate information to locate the assets. Furthermore, land reflected in the name of the municipality in the valuation roll could not be traced to the asset register, due to the asset register not containing unique identifiers to enable verification.
5. I was unable to obtain sufficient appropriate audit evidence for transfers from assets under construction, due to the non-submission of supporting documents. I was unable to determine whether any adjustments were necessary relating to the transfer of assets under construction amounting to R69 978 945 disclosed in note 10 to the financial statements.

## **Other matter**

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

## **Unaudited disclosure note**

21. 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 the accounting officer**

22. 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.

23. 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**

24. 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 the 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.

25. 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**

26. 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.

27. 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.

28. 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 objective presented in the annual performance report of the municipality for the year ended 30 June 2017:

Objectives	Pages in the annual performance report
KPA 5: basic service delivery – community development services and infrastructure	x – x

29. I performed procedures to determine whether the reported performance information was properly presented and 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.

30. The material findings in respect of the usefulness and reliability of the selected objective are as follows:

**KPA 5: basic service delivery – community development services and infrastructure**

All indicators

31. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the targets. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements.

**Other matter**

32. I draw attention to the matter below.

41. The annual performance report for the year under review did not include a comparison of the performance with set targets and measures taken to improve performance, as required by section 46(1)(a) and (c) of the Municipal Systems Act of South Africa, 2000 (Ac: No. 32 of 2000) (MSA).
42. The oversight report adopted by the council on the 2015-16 annual report was not made public, as required by section 129(3) of the MFMA.
43. The council failed to adopt an oversight report containing the council's comments on the annual report within the prescribed timelines, as required by section 129(1) of the MFMA.

#### Consequence management

44. Unauthorised 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) of the MFMA.
45. Some of the irregular expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.
46. 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)(b) of the MFMA.

#### Budget

47. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R52 943 876, as disclosed in note 48 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending on programmes.

#### Human resource management

48. Appropriate systems and procedures to monitor, measure and evaluate the performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA.

#### Procurement and contract management

49. Some goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of supply chain management (SCM) regulation 17(a) and (c).
50. Some invitations for competitive bidding were not advertised for the required minimum period, in contravention of SCM regulation 22(1) and 22(2).
51. Some contracts were awarded to bidders based on functionality criteria that had not been stipulated in the original invitation for bidding, in contravention of the Preferential Procurement Regulations.

63. 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. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact.
64. I have read the other information included in the draft annual report and have nothing to report in this regard.
65. I have not yet received the final annual report containing the other information. When I do receive this information, and if I conclude that it contains a material misstatement, I am required to communicate the matter to those charged with governance and to request the other information to be corrected. If the other information is not corrected, I may have to re-issue my auditor's report amended as appropriate.

#### Internal control deficiencies

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

#### Leadership

67. Management did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.
68. Management did not establish and communicate policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities.
69. Management did not develop and monitor the implementation of action plans to address internal control deficiencies.

#### Financial and performance management

70. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting.
71. Management did not implement controls over daily and monthly processing and reconciling of transactions.
72. Management did not prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information.

## **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 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 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 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 the 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.**