



Report of the auditor-general to the North West provincial legislature and the council on the Rustenburg Local Municipality

Report on the audit of the consolidated and separate financial statements

Qualified opinion

1. I have audited the consolidated and separate financial statements of the Rustenburg Local Municipality and its subsidiary set out on pages xx to xx, which comprise of the consolidated and separate statement of financial position as at 30 June 2017, and the consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of my report, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Rustenburg Local Municipality and its subsidiary as at 30 June 2017, and their 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 the restatement to corresponding figures of infrastructure assets as no clear or logical link could be made between the prior period asset register and the current year asset register. I was unable to confirm these adjustments by alternative means. In addition, the municipality did not correctly account for the restatement of the comparative figures relating to the review of useful lives and residual values of property, plant and equipment as required by GRAP 3, *Accounting policies, estimates and errors*, the municipality did not review the useful lives of all categories of assets at each reporting date in accordance with GRAP 17, *Property, plant and equipment*, did not correctly account for depreciation on infrastructure assets in the prior periods as required by GRAP 17, *Property, plant and equipment* and did not recognise all land and buildings as the municipality did not maintain adequate records of all properties owned. This resulted in infrastructure assets included in property, plant and equipment and the accumulated surplus being understated by R529 305 394, but I was unable to determine the total resulting impact on property, plant and equipment and the related depreciation expense as it was impracticable

to do so. Consequently, I was unable to determine whether any further adjustments relating to property, plant and equipment of 8 673 197 000 and R8 078 626 000 (2016: R8 379 925 000 and R7 978 543 000) as disclosed in note 4 or the depreciation and amortisation expense of R322 622 000 and R304 978 000 (2016: R398 061 000 and R381 348 000) as disclosed in note 34 to the consolidated and separate financial statements were necessary.

Service charges

4. The municipality did not account for all revenue from service charges in the previous year in accordance with GRAP 9, *Revenue from exchange transactions* as not all consumers were billed for services. I was unable to determine the full extent of this understatement on service charges, the related receivables or the resultant impact on the surplus for the year and the accumulated surplus, as it was impracticable to do so. As this misstatement has still not been corrected in the current year, I was unable to determine whether any further adjustments to the corresponding figure for service charges of R2 262 344 000 and R2 210 989 000 disclosed in note 25 or the receivables from exchange transactions of R415 018 000 and R403 306 000 (2016: R387 088 000 and R375 583 000) respectively disclosed in note 13 to the consolidated and separate financial statements were necessary.

Commitments

5. The municipality did not have an adequate contract management system to record, maintain and reconcile payments made on its commitments and to disclose capital commitments as required by GRAP 17, *Property, plant and equipment*. As a result commitments as disclosed in note 44 to the consolidated and separate financial statements was overstated by R423 232 541 (2016: R332 382 426).

Irregular expenditure

6. Section 125 of the MFMA requires the disclosure of irregular expenditure incurred. I was unable to obtain sufficient appropriate audit evidence to confirm that awards of R199 737 454 (2016: R429 237 466) were made in terms of the supply chain management requirements. I was also unable to obtain sufficient appropriate audit evidence for the irregular expenditure and the write-off thereof as disclosed in note 55 of the financial statements as sufficient appropriate audit evidence was not provided. The municipality's records did not permit the application of alternative procedures to confirm these awards or disclosure. In addition, irregular expenditure is understated by R501 586 748 due to amounts written off on awards that were incorrectly assessed as not being irregular and in the prior year the municipality incorrectly included VAT in the amount of irregular expenditure disclosed, resulting in the irregular expenditure as disclosed being overstated by R339 278 578. Consequently, I was unable to determine whether any further adjustments relating to irregular expenditure of R2 762 697 000 (2016: R4 503 052 000) disclosed in note 55 to the consolidated and separate financial statements were necessary.

Context for the opinion

7. 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 consolidated and separate financial statements section of my report.
8. 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.
9. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Unauthorised and fruitless and wasteful expenditure

11. As disclosed in note 53 to the financial statements, unauthorised expenditure of R991 580 000 in respect of prior years had not yet been dealt with in accordance with section 32 of the MFMA.
12. As disclosed in note 54 to the financial statements, fruitless and wasteful expenditure of R490 000 was incurred in the current year and fruitless and wasteful expenditure of R1 431 000 from prior years had not yet been dealt with in accordance with section 32 of the MFMA.

Material losses

13. As disclosed in note 56 to the financial statements, material losses of R135 958 000 (2016: R135 547 000) were incurred as a result of water lost through the distribution process.
14. As disclosed in note 35 to the financial statements, material losses of R456 387 000 (2016: R441 561 000) were incurred as a result of an increase in the provision for impairment on receivables from exchange transactions.

Restatement of corresponding figures

15. As disclosed in note 48 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2017.

Other matters

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

Unaudited disclosure notes

17. 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.

Unaudited supplementary schedules

18. The supplementary information 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 for the financial statements

19. 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 the 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.
20. 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 there is an intention either to liquidate the municipality or to cease operations, or there is no realistic alternative but to do so.

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

21. 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 the financial statements.
22. 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

23. 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.
24. 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.
25. 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:

Development priorities	Pages in the annual performance report
Development priority 1 – Efficient provision of quality basic services and infrastructure within a well-planned spatial structure	5 – 6
Development priority 2 – Drive diversified economic growth and job creation	7 – 8
Development priority 3 – Improved municipal financial and administrative capacity	9 – 10

26. 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.

27. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

Development priority 1 – Efficient provision of quality basic services and infrastructure within a well-planned spatial structure

Various indicators not reliable

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

Indicator	Reported achievement
Number of high mast lights installed	33
Percentage increase of households earning less than R3 500 per month with access to free basic services	7%
Kilometres of roads upgraded	6.73

Development priority 2 – Drive diversified economic growth and job creation

Various indicators not reliable

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

Indicator	Reported achievement
Percentage of the municipality's budget actually spent on implementing the workplace skills plan	30.97%
Number of jobs created through local economic development initiatives including capital project	1229

Development priority 3 – Improved municipal financial and administrative capacity

Various indicators not relevant

30. These indicators below did not relate to the strategic objective which it aimed to achieve, as required by the FMPPI. These indicators focused on measuring mere spending, while the strategic objective aimed to achieve sound and sustainable financial management and compliance controls.

Indicator	Strategic objective	Reported achievement
Percentage of the municipality's capital	Implement sound and	68%

budget spent on capital projects identified for a particular financial year in terms of the municipality's integrated development plan	sustainable financial management and compliance controls	
Percentage expenditure on the approved operational budget not exceeding budget amount	Implement sound and sustainable financial management and compliance controls	98%

Other matters

31. I draw attention to the matters below.

Achievement of planned targets

32. Refer to the annual performance report on pages xx to xx for information on the achievement of 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 in paragraphs xx to xx of this report.

Adjustment of material misstatements

33. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of development priority 1 – Efficient provision of quality basic services and infrastructure within a well-planned spatial structure, development priority 2 – Drive diversified economic growth and job creation and development priority 3 – Improved municipal financial and administrative capacity. As management subsequently corrected only some of 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

34. 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.
35. The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

Strategic planning and performance management

36. Annual performance objectives and indicators were not established for Rustenburg Water Service Trust (RWST) or included in its multi-year business plan as required by section 93B(a) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Financial statements, performance and annual reports

37. 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 disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and supporting records

that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

38. Some of the contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act and Preferential Procurement Regulations.
39. Sufficient appropriate audit evidence could not be obtained that all extensions or modifications to contracts were approved by a properly delegated official, as required by SCM regulation 5.
40. 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. This non-compliance was also identified on the Rustenburg Rapid Transport key project.

Human resource management

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

Expenditure management

42. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
43. Effective steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph.

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. Unauthorised and 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)(a) and (b) of the MFMA.
46. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure and we were unable to confirm whether losses resulting from irregular expenditure were certified by council as irrecoverable without having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(b) of the MFMA.

Other information

47. 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 consolidated and separate 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.
48. My opinion and findings do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
49. 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 consolidated and

separate 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.

50. I did not receive the other information prior to the date of the auditor's report. When I do receive 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 re-issue my auditor's report amended as appropriate.

Internal control deficiencies

51. I considered internal control relevant to my audit of the consolidated and separate 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.
- The corrective action plans initiated by the leadership to address prior year audit findings were not effectively implemented by management. The implementation thereof was mostly done through consultants without fully addressing the underlying deficiencies in the systems or in the day to day internal control environments. There was a lack of continuity in key management positions for a major portion of the financial year under review.
 - Management did not implement effective controls to ensure that all information in the financial statements and the report on predetermined objectives were reliable before submission for audit. These shortcomings are evident at year-end during the annual reporting but are also seen during the course of the financial year with management relying on consultants to assist in the financial reporting processes. This negatively impacts the reporting and budget monitoring processes and the quality of the financial information provided to council during the course of the year.
 - Management do not have an adequate risk strategy that addresses identified risks and shortfalls in the municipality's financial systems, in supply chain management, performance reporting as well as non-compliances with laws and regulations. The effectiveness of the audit committee and internal audit's role as an assurance provider was compromised by management's inability to adequately address and react to the audit committee and internal audit's findings and recommendations.

Other reports

52. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

53. An independent consultant investigated an allegation of possible misappropriation of the municipality's assets at the request of the municipality, which covered the period 1 August 2016 to 30 September 2016. The investigation concluded on 11 November 2016 and subsequently resulted in two employees being dismissed.

Auditor General

Rustenburg

15 December 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 [name of the auditee] [and its subsidiary]’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 municipality to express an opinion on the financial statements. I am responsible for the direction, supervision and performance of the municipality 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.

