



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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Kgetlengrivier Local Municipality set out on pages xx to xx, which comprise of 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 the statement of comparison of budget 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, the financial statements present fairly, in all material respects, the financial position of the Kgetlengrivier 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 of 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. 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.

Unauthorised, irregular and fruitless and wasteful expenditure

7. As disclosed in note 41 to the financial statements, unauthorised expenditure of R62 586 808 was incurred in the current year and the unauthorised expenditure of R108 986 135 in respect of prior years had not yet been dealt with in accordance with section 32 of the MFMA.
8. As disclosed in note 42 to the financial statements, fruitless and wasteful expenditure of R9 747 667 was incurred in the current year and fruitless and wasteful expenditure of R11 061 886 from prior years had not yet been dealt with in accordance with section 32 of the MFMA.
9. As disclosed in note 43 to the financial statements, irregular expenditure of R36 290 801 was incurred in the current year and irregular expenditure of R20 363 321 from prior years had not yet been dealt with in accordance with section 32 of the MFMA.

Debt impairment

10. As disclosed in note 29 to the financial statements, material losses to the amount of R14 942 181 were incurred as a result of a debt impairment on consumer debtors.

Restatement of corresponding figures

11. As disclosed in note 38 to the financial statements, the corresponding figures, for the year ended 30 June 2016 have been restated as a result of an error in the financial statements.

Other matter

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

Unaudited disclosure notes

13. 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.

Responsibilities of the accounting officer for the financial statements

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 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.
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 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

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.

Report on the audit of the annual performance report

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 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:

Development priority	Pages in the annual performance report
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 priority are as follows:

Basic Service Delivery and Infrastructure Development

23. I was unable to obtain sufficient appropriate audit evidence for the selected development priorities below, due to a lack of technical indicator descriptions or formal standard operating procedures or documented systems descriptions that predetermined how the achievement would be measured, monitored and reported, as required by the Framework for managing programme performance information (FMPPI). I was unable to confirm that the reported achievement of this indicator was reliable by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements.
- Basic Service Delivery and Infrastructure Development

Other matter

24. I draw attention to the matter below.



Achievement of planned targets

25. 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 paragraph 23 of this report.

Report on audit of compliance with legislation

Introduction and scope

26. 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.
27. The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

Consequence management

28. Unauthorised, irregular 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.
29. Allegations were not always investigated, as required by regulation 5(3) of the Disciplinary regulations for senior managers and section 171(4) of the MFMA, due to non-adherence with SCM requirements.

Conditional grants

30. The Municipal Infrastructure Grant was not spent in accordance with the applicable grant framework, in contravention of section 17(1) of the DoRA.

Strategic planning and performance management

31. The integrated development plan (IDP) of the municipality did not include a financial plan as required by section 26(h) of the Municipal System Act, 2000 (Act No. 32 of 2000) (MSA) and regulation 2(3) of the Municipal planning and performance management regulations.

Procurement and contract management

32. Sufficient appropriate audit evidence could not be obtained that measures to combat the abuse of the SCM system were implemented as per the requirements of SCM regulation 38(1), because some of the contracts were awarded to providers who during the last five years, failed to perform satisfactorily on a previous contract with the municipality.
33. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
34. Awards were made to providers who were in the service of other state institutions or whose directors / principal shareholders were in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44.
35. Persons in service of the municipality whose associate had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e) and the code of conduct for staff members issued in terms of the MSA.

36. Other SCM role players whose partners had a private or business interest in contracts awarded by the municipality participated in the process relating to that contract, in contravention of SCM regulation 46(2)(f).

Budget

37. Reasonable steps were not taken to prevent unauthorised expenditure of R171 674 674, as disclosed in note 41 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by ineffective project management and implementation plans that result in over spending of the budget.

Annual financial statements and annual report

38. 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 current assets, current liabilities, revenue, expenditure and disclosure items, identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.
39. The annual performance report for the year under review did not include the performance of the external services provider and a comparison of the performance with set targets, as required by section 46(1)(a) and (b) of the MSA.
40. The 2015-16 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.
41. 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.

Expenditure management

42. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e).
43. Effective steps were not taken to prevent irregular expenditure of R54 950 716 as disclosed in note 43 to the financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non compliance with with SCM regulations in that deviations procedures were inadequately approved.
44. Effective steps were not taken to prevent fruitless and wasteful expenditure of R9 747 667, as disclosed in note 42 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused due to interest on long outstanding accounts.

Other information

45. 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 objectives presented in the annual performance report that have been specifically reported on in the auditor's report.
46. 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.
47. 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 statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
48. 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

49. 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 the findings on the annual performance report and the findings on compliance with legislation included in this report.
- Leadership did not adequately guide performance activities and failed to address all the shortcomings in internal controls that resulted in the correction of various material misstatements in the financial statements, the findings on performance information, service delivery matters and compliance deviations that have been reported. Furthermore, the monitoring controls to ensure the proper implementation of the overall performance management system process of planning, budgeting, implementation and reporting are not in place.
 - Management's internal controls and processes over the preparation and presentation of financial statements, performance report and compliance did not ensure that the financial statements and performance report were free from misstatements and findings on non-compliance.
 - Notwithstanding a functioning audit committee, their recommendations were not fully implemented by the municipality. Because of a vacant internal audit unit, the municipality did not perform a risk assessment and there was no monitoring of the compilation of an action plan to address the prior year audit findings. Consequently, there has been little to no improvement in the findings on reported performance information or compliance with legislation.

Auditor general

RUSTENBURG

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 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 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.