



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

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

## Report on the audit of the financial statements

### Disclaimer of opinion

1. I was engaged to audit the financial statements of the Moses Kotane Local Municipality set out on pages xx to xx, which comprise of 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 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. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

### Basis for disclaimer of opinion

#### Receivables from non-exchange transactions

3. I was unable to obtain sufficient appropriate audit evidence for receivables from non-exchange transactions due to the status of the accounting records and lack of information in support of these receivables. I was unable to confirm these receivables from non-exchange transactions by alternative means. Consequently I was unable to determine whether any adjustment to receivables from non-exchange transactions of R12 602 199 as presented in the statement of financial position and disclosed in note 7 to the financial statements was necessary.

#### VAT receivable

4. I was unable to obtain sufficient appropriate audit evidence for the VAT receivable due to the status of the accounting records and lack of reconciliations performed between the VAT statements of accounts and the accounting records. I was unable to confirm the VAT receivable by alternative means. Consequently I was unable to determine whether any adjustment to the VAT receivable of R62 134 028 presented in the statement of financial position was necessary.

#### Consumer debtors

5. I was unable to obtain sufficient appropriate audit evidence for consumer debtors due to the status of the accounting records and lack of information in support of these debtors. I was unable to confirm these consumer debtors by alternative means. In addition, the municipality did not have adequate processes in place to ensure that all revenue is correctly billed for



services rendered in accordance with GRAP 9, *Revenue from exchange transactions*. This resulted in consumer debtors of as disclosed in note 9 to the financial statements and revenue from exchange transactions as presented in the statement of financial performance being understated by R46 666 498. Consequently, I was unable to determine whether any further adjustment to consumer debtors of R203 208 463 (2016: R194 707 925) as presented in the statement of financial position and disclosed in note 9 to the financial statements was necessary.

### **Property, plant and equipment**

6. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment due to the status of the accounting records, unreconciled differences between the fixed asset register and financial statements as well as lack of information in support of these assets and adjustments made thereto. I was unable to confirm property, plant and equipment by alternative means. In addition, the entity did not correctly account for land, buildings and infrastructure as required by GRAP 17, *Property, plant and equipment* resulting in land, buildings and infrastructure included in property, plant and equipment being understated by R556 585 900, repairs and maintenance being overstated by R6 212 586 and accumulated surplus being understated by R549 382 062. Additionally, there was a resultant impact on the depreciation and the amortisation expense, the deficit for the year and the accumulated surplus. Consequently, I was unable to determine whether any further adjustment relating to property, plant and equipment of R1 274 251 814 (2016: R1 218 665 470) as presented in the statement of financial position and disclosed in note 3 to the financial statements was necessary.
7. The municipality did not correctly classify investment property as required by GRAP 16, *Investment property* as well as intangible assets as required by GRAP 31 *Intangible assets*. Consequently, property, plant and equipment was overstated by R27 753 862, investment property was understated by R11 005 300 and intangible assets was understated by R16 748 562.

### **Payables from exchange transactions**

8. I was unable to obtain sufficient appropriate audit evidence for payables from exchange transactions due to the status of the accounting records as well as lack of information in support of this balance and adjustments made thereto. I was unable to confirm the payables from exchange transactions by alternative means. Consequently I was unable to determine whether any adjustment to payables from exchange transactions of R112 413 819 as presented in the statement of financial position and disclosed in note 15 to the financial statements were necessary.

### **Revenue from exchange transactions**

9. The municipality did not have adequate processes in place to correctly account for revenue from service charges in accordance with GRAP 9, *Revenue from exchange transactions*. This resulted in service charges of R137 776 585 (2016: R127 220 267) as included in revenue from exchange transactions of R199 350 382 (2016: R180 966 510) in the statement of financial performance and disclosed in note 16 as well as expenditure as presented in the statement of financial performance being overstated R38 083 012. Additionally there's a consequential impact on deficit for the year and accumulated surplus.

### **Expenditure**

10. I was unable to obtain sufficient appropriate audit evidence for depreciation and amortisation, repairs and maintenance and general expenses included in expenditure due to the status of the accounting records as well as lack of information in support of these transactions and adjustments made thereto. I was unable to confirm depreciation and amortisation, repairs and maintenance and general expenses by alternative means. Consequently I was unable to

determine whether any further adjustment to expenditure of R816 988 531 presented in the statement of financial performance were necessary.

### **Cash flow statement**

11. I was unable to obtain sufficient appropriate audit evidence for net cash flows from operating activities, net cash flows from investing activities and net cash flows from financing activities as management could not provide calculations to substantiate the amounts used as required by GRAP 2, *Cash flow statements*. The municipality's records did not permit the application of alternative procedures. Consequently, I was unable to determine whether any adjustments relating to the cash flow statement and notes thereto were necessary.

### **Statement of comparison of budget and actual amounts**

12. GRAP 24, *Presentation of budget information in the financial statements* requires the presentation of the budget information including a statement of comparing the budget and actual amounts as well as reasons for variances. The budget amounts included in the statement of comparison between budget and actual amounts did not agree to the final approved budget of council. Consequently, the variances and reasons for variances between the actual and budgeted amounts disclosed in the statement of comparison of budget and actual amounts, does not reflect the actual variances and reasons for these variances.

### **Commitments**

13. The municipality did not have adequate processes in place to disclose capital commitments as required by GRAP 17, *Property, plant and equipment*. Consequently, commitments of R49 909 663 as disclosed in note 32 to the financial statements is understated by R79 380 858.

### **Prior period error**

14. I was unable to obtain sufficient appropriate audit evidence that management has properly disclosed all adjustments made to correct prior period errors, due to the status of the accounting records and non-submission of information in support of these adjustments. I was unable to confirm these disclosures by alternative means. Consequently, I was unable to confirm whether adjustments made to correct prior period errors was correctly disclosed in note 34 to the financial statements as required by GRAP 3, *Accounting policies, changes in accounting estimates and errors*.

### **Unauthorised expenditure**

15. Section 125 of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) requires the disclosure of unauthorised expenditure incurred. The municipality incurred unauthorised expenditure of R154 201 089 due to overspending of individual votes within the budget which was not included in the unauthorised expenditure disclosed. Consequently, unauthorised expenditure as disclosed in note 36 to the financial statements was understated by R154 201 089.

### **Fruitless and wasteful expenditure**

16. Section 125 of the MFMA requires the disclosure of fruitless and wasteful expenditure incurred. As the municipality did not quantify the full extent of the fruitless and wasteful expenditure incurred, it was impracticable to determine the resultant understatement of fruitless and wasteful expenditure of R8 986 252 as disclosed in note 37 to the financial statements.

### **Irregular expenditure**

17. Section 125 of the MFMA requires the disclosure of irregular expenditure incurred. The municipality made payments in contravention of the supply chain management requirements

which were not included in the irregular expenditure disclosed. As the municipality did not quantify the full extent of the irregular expenditure incurred, it was impracticable to determine the resultant understatement of irregular expenditure of R421 458 505 (2016: R349 781 910) as disclosed in note 38 to the financial statements.

### **Material losses**

18. Section 125 of the MFMA requires the disclosure of material losses incurred. As the municipality did not quantify the full extent of the material water losses incurred, it was impracticable to determine the amount to be disclosed in the financial statements.

### **Emphasis of matter**

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

### **Material uncertainty relating to contingencies**

21. As disclosed in note 33 of the financial statements the municipality has contingent liabilities amounting to R33 480 055 which will only be confirmed after the occurrence of a future event.

### **Other matters**

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

### **Unaudited disclosure notes**

23. 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**

24. 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**

25. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the MFMA and the Division of Revenue Act of South Africa, 2016 (Act No. 3 of 2016) (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.
26. 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**

27. My responsibility is to conduct an audit of the financial statements in accordance with International Standards on Auditing (ISAs) and to issue an auditor's report. However, because

of the matters described in the basis for disclaimer of opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

28. 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 of the financial statements. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

## Report on the audit of the annual performance report

### Introduction and scope

29. 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.
30. 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.
31. 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
KPA 1: Basic services and infrastructure development	x – x
KPA 3: Local economic development	x – x

32. 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.
33. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

### KPA 1: Basic services and infrastructure development

#### Indicator: Construction of 5Ml/day Ledig reservoir

34. The indicator was reported as Ledig bulk water supply completed by June 2017 while the indicator was approved as Ledig reservoir completed by June 2017 in the integrated development 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). This change was made without the necessary approval as required by section 25(2) of the MSA.

**Indicator: Provision of water to 6 villages through ground water optimisation. (Koffiekraal, Manamela, Witrantjie, Ramokgelo)**

35. The indicator was reported as Provision of water to 6 villages through ground water optimisation. (Koffiekraal, Manamela, Witrantjie, Ramokgelo) while the indicator was approved as Provision of water to 6 villages through ground water optimisation in the integrated development plan. This is not in line with the requirements of section 41(c) of MSA. This change was made without the necessary approval as required by section 25(2) of the MSA.
36. The method of calculation for the achievement of the planned indicator was not clearly defined, as required by the FMPPI.
37. Furthermore I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the target as achieved. This was due to limitations placed on the scope of my work. Consequently, I was unable to determine whether any adjustments were required to the reported achievement.

**Indicator and target: Provision of VIP toilets under Rural Sanitation Programme (Molatedi, Ramasedi, Ratau, Mmorong, Bojating, Mantserre)**

38. The indicator and target were reported as Provision of VIP toilets under Rural Sanitation Programme (Molatedi, Ramasedi, Ratau, Mmorong, Bojating, Mantserre) and Completion of 2200 VIP toilets by June 2017, while the indicator and target were approved as Provision of VIP toilets under Rural Sanitation Programme and Completion of 2270 VIP toilets by June 2017 respectively. This is not in line with the requirements of section 41(c) of the MSA. In addition, the indicator and target were changed without the necessary approval as required by section 25(2) of the MSA.
39. I was also unable to obtain sufficient appropriate audit evidence for the reported achievement of the following indicator. This was due to limitations placed on the scope of my work. The actual level of achievement for the year was not quantified. Consequently, I was unable to determine whether any adjustments were required to the reported achievement.

**Indicator: Number of households provided with refuse removal services**

40. The systems and processes to enable reliable reporting of actual service delivery against the indicator were not adequately designed as required by the FMPPI.
41. Furthermore I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the target as achieved. This was due to limitations placed on the scope of my work. Consequently, I was unable to determine whether any adjustments were required to the reported achievement.

**Various Indicators: Performance indicators are not well-defined, targets are not specific and measurable**

42. When the indicators listed below were planned, it was not determined how the achievements would be measured and monitored as the source information and method of calculation of the achievements was not predetermined, as required by the Framework for managing programme performance information (FMPPI). Due to the lack of technical indicator descriptions that could clearly define the source information and method of calculation, I was unable to obtain sufficient appropriate audit evidence to verify the reliability of the reported achievements. I was unable to confirm whether the reported achievements of these indicators were reliable by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements.

Indicator	Reported target	Reported achievement
Welgeval (block 6) water supply	Welgeval (block 6) supply completed by June 2017	Not Achieved
Turnaround time for attending to incidents upon reporting	Incidents attended to within 24 hours of reporting by June 2017	Not Achieved

**Various targets: Reported achievement not supported by sufficient appropriate audit evidence**

43. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the following indicators. This was due to limitations placed on the scope of my work. The actual level of achievement for the year was not quantified. Consequently, I was unable to determine whether any adjustments were required to the reported achievement:

No.	Indicator	Reported target	Reported Achievement
1	Number of KMs of internal roads constructed in Phadi Phase II	0.6 Km of roads constructed by June 2017	Achieved
2	Number of KMs of internal roads constructed in Ramokoka Phase II	1.7 KMs of roads constructed by June 2017	Not achieved
3	Number of roadblocks conducted	12 roadblocks conducted by June 2017	Not Achieved
4	Number of crime prevention campaigns conducted	4 crime prevention campaigns conducted by June 2017.	Achieved
5	Number of KMs of internal roads constructed in Disake	1.8 Km roads completed by June 2017	Not achieved
6	Number of KMs of internal roads constructed in Ledig Phase II (including bridge)	0.3 km roads ( including bridge) constructed by June 2017	Not achieved
7	Number of KMs of internal roads constructed in Matlametlong	1.3 KMs constructed by June 2017	Not achieved
8	Number of KMs of internal roads Legkraal/Lesetlheng Phase II	2.5 KMs constructed by June 2017	Not achieved

**Various targets: Inconsistency between planned and reported target and reported achievement not supported by sufficient appropriate audit evidence**

44. The reported targets for the following indicators were not consistently with the planned targets as per the approved service delivery and budget implementation plan. This is not in line with the requirements of section 41(c) of the MSA. In addition, the targets were changed without the necessary approval as required by section 25(2) of the MSA.

45. I was also unable to obtain sufficient appropriate audit evidence for the reported achievement of the following indicators. This was due to limitations placed on the scope of my work. The actual level of achievement for the year was not quantified. Consequently, I was unable to determine whether any adjustments were required to the reported achievement:

No.	Indicator	Planned target	Reported targets	Reported achievement
1	Number of KMs of internal roads constructed in Mankaipaya Phase II	Number of KMs constructed by June 2017	0.47 KMs of roads constructed by June 2017	Achieved
2	Number of kilometres of road maintained	Number of kilometres of road maintained	3 KMs of roads maintained in Madikwe by June 2017 under operation and maintenance	Achieved
3	Number of high mast lights installed in Mononono	Number of HMLs installed by June 2017	1 number of HMLs installed by June 2017	Not achieved
4	Number of high mast lights installed in Moubana	Number of HMLs installed by June 2017	2 number of HMLs installed by June 2017	Not achieved
5	Number of high mast lights installed in Koffiekraal	Number of HMLs installed by June 2017	2 number of HMLs installed by June 2017	Not achieved
6	Number of high mast lights installed in Brakkuil	Number of HMLs installed by June 2017	6 number of HMLs installed by June 2017	Not achieved
7	Number of high mast lights installed in Manamela	Number of HMLs installed by June 2017	3 number of HMLs installed by June 2017	Not achieved
8	Number of high mast lights installed in Montsana	Number of HMLs installed by June 2017	3 number of HMLs installed by June 2017	Not achieved
9	Number of high mast lights installed in Manamakgoteng	Number of HMLs installed by June 2017	1 number of HMLs installed by June 2017	Not achieved
10	Number of high mast lights installed in Seolong	Number of HMLs installed by June 2017	1 number of HMLs installed by June 2017	Not achieved
11	Number of high mast lights installed in Ratau	Number of HMLs installed by June 2017	1 number of HMLs installed by June 2017	Not achieved
12	Number of high mast lights installed in Legogolwe	Number of HMLs installed by June 2017	1 number of HMLs installed by June 2017	Not achieved
22	Number of high mast lights installed in Legkraal	Number of HMLs installed by June 2017	1 number of HMLs installed by June 2017	Not achieved

### KPA 3: Local economic development

#### Various indicators: Annual achievements not quantified

46. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of the following indicators. This was due to limitations placed on the scope of my work and the actual level of achievement for the year was not quantified. Consequently, I was unable to determine whether any adjustments were required to the reported achievements:

No.	Planned indicator	Planned target	Reported achievement
1	Number of job opportunities created through LED projects	158 job opportunities created through LED projects by December 2016	Not achieved
2	Number of LED forum meetings held	2 LED forum meetings held by June 2017	Not achieved
3	Number of business awareness campaigns facilitated	6 business awareness campaigns facilitated by June 2017	Not achieved
4	Number of SMMEs capacitated	60 SMMEs capacitated by June 2017	Not achieved

5	Number of LED projects established	10 LED projects established	Not achieved
6	Number of LED projects financially supported	4 LED projects supported by June 2017	Not achieved

## Other matter

47. I draw attention to the matter below.

### Achievement of planned targets

48. 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.

## Report on audit of compliance with legislation

### Introduction and scope

49. 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.
50. The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

### Annual financial statements, performance and annual reports

51. The financial 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 and current assets, revenue, expenditure and 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 disclaimer of opinion.
52. The annual performance report for the year under review did not include measures taken to improve performance, as required by section 46(1)(c) of the MSA.

### Budgets

53. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The unauthorised expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed unauthorised expenditure was caused by overspending of the approved budget.

### Expenditure management

54. 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 incurred could not be quantified as indicated in the basis for disclaimer paragraph. The majority of the disclosed irregular expenditure was caused by not correctly applying the required SCM regulation 32. Irregular expenditure of R56 941 001 was incurred on the key projects for the construction of the bulk water supply in Lerome Village and the Rural Sanitation Programme (Provision for VIP Toilets).

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

### **Asset management**

57. 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.
58. An effective system of internal control for assets, as required by section 63(2) (c) of the MFMA was not in place.
59. Capital assets were permanently disposed without the approval of the council, as required by section 14(2)(a) of the MFMA.

### **Revenue management**

60. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.
61. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2) (b) of the MFMA.
62. Accounts for municipal tax and charges for municipal were not prepared on a monthly basis as required by section 64(2)(c) of the MFMA.

### **Procurement and contract management**

63. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded in accordance with the legislative requirements as management did not submit the information for audit purposes.
64. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(a) and (c).
65. The preference point system was not applied to some of the procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act.
66. Awards were made to providers who were in the service of other state institutions or whose directors were in the service of other state institutions, in contravention of section 112(j) of the MFMA 112(j) and 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).
67. 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 SCM regulation 46(2)(e).

### **Consequence management**

68. Irregular expenditure 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)(b) of the MFMA.
69. Allegations of financial misconduct against senior managers were not always tabled before council, as required by regulation 5(2) of the Disciplinary regulations for senior managers.
70. Allegations of financial misconduct were not always investigated, as required by regulation 5(3) of the Disciplinary regulations for senior managers and section 171(4) of the MFMA.

71. Allegations of financial misconduct laid against officials of the municipality were not investigated in accordance with the requirements of regulation 5(4) of the Municipal regulations on financial misconduct procedures and criminal proceedings and section 172(3)(a) of the MFMA.
72. A terms of reference were not always approved by council for investigations of financial misconduct as required by regulation 6(1) of the Municipal regulations on financial misconduct procedures and criminal proceedings.

### **Strategic planning and performance management**

73. Key performance indicators (KPIs) were not set for the provision of basic water and sanitation services as required by section 43(2) of the MSA and regulation 10(a) of the Municipal planning and performance management regulations.
74. The review of the integrated development plan (IDP) of the municipality was not done in accordance with the results of the performance evaluation as required by section 34(a) and 41(1)(c) of the MSA.

### **Other information**

75. 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.
76. 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.
77. 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.
78. 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**

79. 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 disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
- Leadership did not exercise adequate oversight and decisive actions were not taken to address risks to ensure that complete and accurate financial statements, performance reporting and compliance as well as related internal controls are implemented. Furthermore, the action plan to address prior year audit findings was not adequate as numerous instances of repeat audit findings were identified which negatively impacts on the assurance level provided by leadership.

- Management failed to implement effective controls to ensure that all information in the financial statements and annual performance report were reliable before submission for audit as basic accounting errors were identified due to management and staff not preparing properly reconciled financial information and staff not fully understanding the requirements of the financial reporting framework which could have been prevented had reasonable due care been exercised. Management could not provide adequate evidence in support of the information presented in financial statements. Management did not adequately review and monitor compliance with applicable laws and regulations resulting in compliance matters not being addressed.
- Internal audit was unable to perform all planned audits at the municipality, due to capacity constraints. Internal audit nonetheless had limited impact on the audit outcomes of the municipality. Further the audit committee was not functional for the entire year. As a result, they were unable to provide adequate oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations. Internal audit and the audit committee did not provide sufficient assurance on the quality of the financial statements and performance report prior to submission to the external auditors as a number of material misstatements were identified during the audit which could have been prevented had proper oversight been implemented.

*Auditor - General*

Rustenburg

30 November 2017



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