

# Report of the auditor-general to the Free State Legislature and the council on the Nketoana Local Municipality

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the Nketoana Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2018, 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, except for the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Nketoana Local Municipality as at 30 June 2018, 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, 2017 (Act No. 3 of 2017) (Dora).

### Basis for qualified opinion

#### Property, plant and equipment

3. The municipality did not recognise all items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. Infrastructure projects that were completed were incorrectly categorised as work in progress. Consequently, work-in-progress as disclosed in note 13 to the financial statements was overstated by R25 767 067. Furthermore, assets that are under control of the municipality were not recognised on the asset register and depreciation was incorrectly calculated, which resulted in an understatement of property, plant and equipment by R13 522 833 (2017: R7 657 962). Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

#### Employee related costs

4. I was unable to obtain sufficient appropriate audit evidence regarding employee related costs, due to the status of the accounting records, as no support was submitted for journals passed by the municipality. In addition, the municipality did not have adequate systems in place to account for allowances to employees and as a result the employee related costs were understated by R2 772 571. I was unable to determine whether any adjustment was necessary to employee related costs stated at R107 855 688 in note 34 to the financial statements.

### **Payables from exchange transactions**

5. The municipality incorrectly accounted for payables from exchange transactions due to the differences identified between underlying records and the financial statements as well as items of expenditure that were incorrectly not recognised, resulting in payables from exchange transactions, general expenses as well as repairs and maintenance being understated by R2 802 097 (2017: R11 548 242), R10 976 566 and (2017: R7 876 306), respectively. In addition, I was unable to obtain sufficient appropriate audit evidence for payables from exchange transactions due to lack of support for journals and poor status of the accounting records at the municipality. I was unable to confirm payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to payables from exchange transactions stated at R270 095 588 in note 19 to the financial statements.

### **Distribution losses**

6. I was unable to obtain sufficient appropriate audit evidence that distribution losses had been properly accounted for, due to the status of the accounting records and non-submission of information in support of these distribution losses. I was unable to confirm these distribution losses by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the amounts disclosed as distribution losses in note 57 to the financial statements for both the current and the prior year.

### **Consumer debtors**

7. I was unable to obtain sufficient appropriate audit evidence that consumer debtors had been properly accounted for, due to some of the consumers not being categorised at all for debt impairment determination purposes. I was unable to confirm these consumer debtors by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to consumer debtors stated at R21 472 278 in note 9 to the financial statements.

### **Employee benefit obligations**

8. I was unable to obtain sufficient appropriate audit evidence that employee benefit obligation had been properly accounted for, due to the status of the accounting records and non-submission of supporting documentation for the inputs used. I was unable to confirm this employee benefit obligations by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to employee benefit obligations stated at R7 954 000 in note 21 to the financial statements.

### **Investment property**

9. The municipality did not recognise all items of investment property in accordance with GRAP 16, *Investment Property*. Items of investment property were incorrectly not recognised on the investment property register of the municipality. Consequently, investment property was understated by R5 586 689 in the financial statements. Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

### **Receivables from exchange transactions**

10. I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions due to the poor status of the accounting records. I could not confirm the receivable from exchange transactions by alternative means. In addition, the municipality did not have adequate systems in place to account for receivables from exchange transactions, which resulted in receivables from exchange transactions being understated by R2 985 138. Consequently, I was unable to determine whether any further adjustment was necessary to receivables from exchange transactions stated at R19 728 (2017:R8 306) in note 6 to the financial statements.

### **Cash and cash equivalents**

11. During 2017, differences were identified between the cash book and the figures as per the financial statements, resulting in cash and cash equivalents being understated by R5 829 791. In addition, I was unable to obtain sufficient appropriate audit evidence for reconciling items in cash and cash equivalents, as the municipality could not provide support for these. I could not confirm cash and cash equivalents by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to cash and cash equivalents stated at R1 305 931 in note 10 to the financial statements.

### **Value-added tax receivable**

12. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for value-added tax (VAT) receivable. As described in note 51 to the financial statements, the restatement was made to rectify a previous year misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the VAT receivable corresponding figure stated at R20 955 003 in note 8 to the financial statements.

### **Context for the opinion**

13. 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 this auditor's report.
14. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) and 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.
15. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Material uncertainty relating to going concern**

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

17. Note 53 to the financial statements indicates that the municipality incurred a net loss of R89 364 851 during the year ended 30 June 2018 and, as of that date the municipality's current liabilities exceeded its current assets by R233 263 165. The municipality owed Eskom R185 643 837 (2017: R145 782 736) as at 30 June 2018 which is long overdue. These events or conditions, along with other matters as set forth in note 53, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern and to meet its service delivery objectives.

### **Emphasis of matters**

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

### **Restatement of corresponding figures**

19. As disclosed in note 51 to the financial statements, the corresponding figures for 30 June 2017 have been restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2018.

### **Material impairments**

20. As disclosed in note 9 to the financial statements, consumer debts from exchange transactions were impaired by R390 412 252 (2017: R338 370 261).
21. As disclosed in note 7 to the financial statements, receivables from non- exchange transactions were impaired by R25 304 686 (2017: R22 787 652).
22. As disclosed in note 6 to the financial statements, receivables from exchange transactions were impaired by R11 004 715 (2017: R11 004 715).
23. As disclosed in note 40 to the financial statements, material losses to the amount of R48 721 632 (2016: R52 208 251) was incurred as a result of a write-off of irrecoverable trade debtors.

### **Irregular expenditure**

24. As disclosed in note 56 to the financial statements, irregular expenditure of R24 057 685 (2017: R23 813 100) was incurred due to non-compliance with supply chain management (SCM) requirements. In addition, the full extent of Irregular expenditure was still in the process of being determined.

### **Unauthorised expenditure**

25. As disclosed in note 54 to the financial statements, the municipality incurred unauthorised expenditure of R44 291 916 (2017: R77 901 074) in the year under review due to overspending of the approved budget.

### **Fruitless and wasteful expenditure**

26. As disclosed in note 55 to the financial statements, fruitless and wasteful expenditure of R21 335 407 (2017: R16 787 904) was incurred. The fruitless and wasteful expenditure was mainly due to interest on overdue accounts.

## **Other matters**

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

### **Unaudited disclosure note**

28. 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.

### **Unaudited supplementary information**

29. The supplementary information set out on pages 97 to 104 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 on them

## **Responsibilities of the accounting officer for the financial statements**

30. 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.
31. In preparing the financial statements, the accounting officer is responsible for assessing the Nketoana Local 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 appropriate governance structure 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**

32. 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
33. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## **Report on the audit of the annual performance report**

### **Introduction and scope**

34. 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.

35. 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.
36. 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 priority presented in the annual performance report of the municipality for the year ended 30 June 2018:

Development priority	Pages in the annual performance report
KPA 4: basic service delivery	X – X

37. 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.
38. The material findings in respect of the usefulness and reliability of the selected development priority are as follows:

#### KPA 4 - Basic Service Delivery

##### Various Strategic objectives

39. The following strategic objectives were reported on, in the annual performance report but were not approved in the service delivery and budget implementation plan.

Strategic Objective
Business processes
To provide proof of residence to residents according to the approved documents from Finance.

##### Various indicators

40. The following indicators and targets were approved in the service delivery and budget implementation plan but were not reported on in the annual performance report.

<b>Performance indicators</b>	<b>Planned targets</b>
Development of a Solid Waste Disposal Site for Mamafebudu.	1
Boreholes: Equipping new boreholes in Mamafebudu	3
Boreholes: Equipping new boreholes in Arlington/Leratswana	5

41. The following indicators and targets were reported on, in the annual performance report but were not approved in the service delivery and budget implementation plan. As a result, I was unable to obtain sufficient appropriate audit evidence of the reported achievement. Limitations were placed on the scope of my work as I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievements as reported in the annual performance report.

<b>Performance indicators</b>	<b>Reported achievement</b>
Construction of a 4MI reservoir in Mamafubedu to ensure that there is enough storage (48 hours)	1
Reitz WTW to Reitz town Pipeline, 15km To ensure that all resident have water in their yards	0
Reitz to Lindley Pipeline, 42km, to ensure that residents have access to reliable water source	0
Installation of 8 high mast lights	8

42. I was unable to obtain sufficient appropriate audit evidence to support the reported achievement for the following targets. This was due to a lack of technical indicator descriptions, proper performance management systems and processes and formal standard operating procedures that predetermines how the achievement would be measured, monitored and reported. 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 in the annual performance report. The planned targets were also not specific in clearly identifying the nature and the required level of performance. The planned targets were also inconsistent to the reported achievements.

<b>Performance indicators</b>	<b>Planned targets</b>	<b>Reported achievement</b>
To repair and maintain roads and storm water infrastructure on a continuous basis as required or on demand during the financial year <i>Number of square meters repaired</i>	Continuously on demand	4123.2

To repair and maintain roads and storm water infrastructure on a continuous basis as required or on demand during the financial year <i>Number of damaged paved roads repaired in square meters</i>	Continuously on demand	13
To repair and maintain roads and storm water infrastructure on a continuous basis as required or on demand during the financial year <i>Number and length of storm water canals cleaned (km)</i>	Continuously on demand	40.512
To repair and maintain roads and storm water infrastructure on a continuous basis as required or on demand during the financial year <i>Number of km of gravel roads maintained</i>	Continuously on demand	9.0080

43. The reported achievement in the annual performance report did not agree to the supporting evidence provided for the indicators listed below. The supporting evidence provided indicated that the achievement of these indicators were as stipulated below. The measures taken to improve performance were also not included in the annual performance report:

Performance indicator	Reported achievement	Audited value
Purchasing of a waste compactor truck	1	0
Purchasing of a TLB	1	0
Upgrading of Reitz, Purification plant RBIG	1	0
Improvement of the municipality's green drop assessment score template	18%	0

44. The reported achievement in the annual performance report did not agree to the supporting evidence provided for the indicators listed below. The supporting evidence provided indicated that the achievement of these indicators were as stipulated follows:

Performance indicator	Reported achievement	Audited value
14000 households in formal urban areas, as defined in the IDP, have access to at least RDP level of water	14000	15479



All registered indigents have access to free basic water	100%	92%
Reitz to Mamafubedu Pipeline, 42km	<i>Actual achievement not reported</i>	0
Farms provided with clean, portable water when required	<i>Actual achievement not reported</i>	5

45. The targets approved in the service delivery and budget implementation plan was not consistent to the reported target in the annual performance report.

Performance indicator	Target per planning document	Target per annual performance report
Reitz to Mamafubedu Pipeline, 42km	13.4	Phase 3: 15 km Phase 4: 12km
To repair and maintain roads and storm water infrastructure on a continuous basis as required or on demand during the financial year <i>Number of damaged paved roads repaired in square meters</i>	Continuously on demand	Continuously on demand 13m2

46. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against the following targets reported in the annual performance report. This was due to limitations placed on the scope of my work.

Performance indicator
90 litres refuse bins distributed to households in urban areas
Reitz: Upgrade of Waste Water Treatment Works (WWTW) Phase 1: R10 510 442.54 Phase 2: R4 980 350.76 Phase 3: R2 589 456.00  Percentage progress in the project according to indicated milestones in the tender document

47. Measures taken to improve performance against the following targets were not included in the annual performance report.

Performance indicator
Reitz water Treatment Works: Upgrading of Raw water pump station and high lift pump station
Improve the blue drop assessment result of the municipality by a minimum of 10%

#### **Repairs and maintenance of street lights and other infrastructure according to the weekly plan and customer reports**

48. The indicator approved in the service delivery and budget implementation plan was reports on repairs and maintenance. However, the indicator reported in the annual performance report was Repairs & Maintenance of street lights and other infrastructure according to the weekly plan and customer report, Reports on repairs and maintenance. In addition, the planned target for this indicator was not specific in clearly identifying the nature and required level of performance. I was also unable to obtain sufficient appropriate audit evidence to support the reported achievement of daily according to the weekly plan and customer complaints. This was due to a lack of technical indicator descriptions, proper performance management systems and processes and formal standard operating procedures that predetermines how the achievement would be measured, monitored and reported. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of daily according to weekly plan and customer complaints as reported in the annual performance report.

#### **Weekly refuse removal to households in formal settlements**

49. The planned target, weekly at residential sites and bi-weekly at business sites (14000 sites), for this indicator was not specific in clearly identifying the nature and the required level of performance. I was also unable to obtain sufficient appropriate audit evidence to support the reported achievement of weekly at residential sites and bi-weekly at business sites (14,000 sites). This was due to a lack of technical indicator descriptions, proper performance management systems and processes and formal standard operating procedures that predetermines how the achievement would be measured, monitored and reported. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of weekly at residential sites and bi-weekly at business sites (14,000 sites) as reported in the annual performance report.

#### **Households have access to at least RDP level of sanitation**

50. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the number of households with access to basic level of sanitation. 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 achievement of 14000 as reported in the annual performance report.

#### **Other matter**

51. I draw attention to the matter below.

## **Achievement of planned targets**

52. Refer to the annual performance report on pages ... to ... 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 38 to 50 of this report.

## **Report on the audit of compliance with legislation**

53. Included below are material findings on compliance with selected specific requirements of applicable legislation, as set out in the general notice issued in terms of the PAA.

## **Strategic planning and performance**

54. The SDBIP for the year under review did not include the monthly operational and capital expenditure by vote, as required by section 1 of the MFMA.

## **Annual financial statements, performance report and annual report**

55. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) (a) of the MFMA. Material misstatements of non-current assets, current assets, liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statement receiving a qualified audit opinion.
56. The annual financial statements were not submitted to the Auditor-General, for auditing, within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.
57. The annual financial statements were not submitted to the Auditor-General within two months after the end of the financial year and written explanation setting out the reasons for the failure were not tabled in council as required by section 133(1)(a) of the MFMA.

## **Procurement and contract management**

58. 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 by SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.
59. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). This non-compliance was identified in the procurement processes.
60. Some of the bid documentation for procurement of commodities designated for local content and production, did not stipulated the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2).
61. Sufficient appropriate audit evidence could not be obtained that commodities designated for local content and production, were procured from suppliers who submitted a declaration on local production and content as required by the 2017 preferential procurement regulation.

62. Sufficient appropriate audit evidence could not be obtained that commodities designated for local content and production, were procured from suppliers who met the prescribed minimum threshold for local production and content, as required by the 2017 preferential procurement regulation 8(5).
63. 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.
64. SCM officials whose close family members, partners and associates 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).

#### **Expenditure management**

65. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
66. Reasonable steps were not taken to prevent irregular expenditure amounting to R24 057 685, as disclosed in note 56 to the annual financial statements as required by section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by non-compliance with SCM regulations.
67. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R21 335 407, as disclosed in note 55 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest on overdue accounts.
68. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R44 291 916, as disclosed in note 54 to the annual financial statements as required by section 62(1)(d) of the MFMA. The majority of the disclosed unauthorised expenditure was caused overspending of the budget.
69. I was unable to obtain sufficient appropriate audit evidence that payments from the municipality's bank account were approved by the accounting officer, as required by section 11 (1) of the MFMA.

#### **Asset management**

70. I was unable to obtain sufficient appropriate audit evidence that all investments were made in the name of the municipality, as required by municipal investment regulation 12(2).

#### **Liability management**

71. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2) (c) of the MFMA.

#### **Consequence management**

72. All the unauthorised 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) of the MFMA.

73. 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)(b) of the MFMA.

#### **Other information**

74. 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 and the selected KPA presented in the annual performance report that have been specifically reported in this auditor's report.
75. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
76. 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 KPA presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
77. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

#### **Internal control deficiencies**

78. 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.
79. The leadership did not always take adequate action to develop and monitor the action plan aimed at addressing weaknesses at the finance and SCM directorate due to slow response. This resulted in non-compliance with applicable legislation.
80. There was no effective leadership to enhance the best interests of the municipality as remedial or disciplinary action was not taken in a timely and consistent manner against those that deviated from SCM regulations.
81. Management did not implement effective human resource management to ensure that adequate and sufficiently skilled officials are appointed. This resulted in material misstatements in the financial statements as well as material non-compliance.
82. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial

and performance reporting. This resulted in a number of scope limitations being reported during the audit.

83. Management did not implement controls over daily and monthly processing and reconciling of transactions, which resulted in a qualified audit opinion.
84. Management did not prepare regular, accurate and complete performance reports that are supported and evidenced by reliable information, due to lack of reviews of this information during the financial year, which gave rise to a number of material findings.
85. There was no adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively due to slow response in filling the vacancy in the position of head of internal audit.
86. The audit committee did not adequately review and verify the information reported in the annual financial statements and performance report submitted for auditing. This resulted in various matters being adjusted and corrected during the audit that could have been prevented.

#### Other reports

87. 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.
88. An investigation was being conducted by the South African Police Service (SAPS) into alleged fraudulent procurement transactions between the 2009 and 2012 financial years. Supporting documentation was seized by the SAPS. The investigation commenced towards the end of the 2013 financial year. The investigation was still ongoing at the reporting date.
89. A case was opened with the Directorate for Priority Crime Investigation into alleged fraudulent procurement transactions between the 2014 and 2015 financial years. The investigation was still ongoing at the reporting date.

*Auditor-General*

Bloemfontein

30 April 2019



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 KPAs 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 this 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 Nketoana Local Municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease continuing 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, where applicable, related safeguards.