



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 Kgetlengrivier Local Municipality

Report on the audit of the financial statements

Disclaimer of opinion

1. I was engaged to audit 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 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. I do not express an opinion on the financial statements of the Kgetlengrivier Local 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

Inventories

3. I was unable to obtain sufficient appropriate audit evidence for inventories as information requested from management was not made available for audit. I was unable to confirm these assets by alternative means. Consequently, I was unable to determine whether any adjustment relating to inventories of R50 712 363 as disclosed in note 7 of the financial statements was necessary.
4. The municipality did not have adequate policy, processes and systems in place to correctly account for land held for sale as required by GRAP 12, *Inventories* as these assets do not meet the definition of inventories. Consequently, inventories were overstated by R50 303 360 and investment property was understated by R47 913 360 and fair value adjustment on investment property understated by R2 390 000.

Other financial assets

5. I was unable to obtain sufficient appropriate audit evidence for other financial assets due to differences between the financial statements and the accounting records. I was unable to confirm these assets by alternative means. Consequently, I was unable to determine whether any adjustment relating to other financial assets of R2 997 533 as disclosed in note 5 of the financial statements was necessary.

Receivables from exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions due to differences between the financial statements and the accounting records. I was unable to confirm these receivables by alternative means. Consequently, I was unable to



determine whether any adjustment relating to receivables from exchange transactions of (R7 143 892) as disclosed in note 8 to the financial statements was necessary.

Receivables from non-exchange transactions

7. I was unable to obtain sufficient appropriate audit evidence for receivables from non-exchange receivables due to differences between the financial statements and the accounting records. I was unable to confirm these receivables by alternative means. Consequently, I was unable to determine whether any adjustment relating to receivables from non-exchange receivables of R54 795 936 as disclosed in note 9 to the financial statements was necessary. Consumer debtors
8. The municipality incorrectly classified receivables for property rates as consumer debtors as required by GRAP1, *Presentation of financial statements*. Consequently, consumer debtors were overstated by R7 144 299 (2017: R3 789 759) and receivables from non-exchange transactions was understated by the same amount. In addition, no allowance for impairment of consumer debtors was made for the current year as required by GRAP 104, *Financial instruments*. I was unable to quantify the resultant misstatements as it was impracticable to do so. Further, I was unable to obtain sufficient appropriate audit evidence for consumer debtors due to differences between the financial statements and the accounting records. I was unable to confirm these debtors by alternative means. Consequently, I was unable to determine whether any adjustment relating to consumer debtors of R54 278 282 as disclosed in note 10 to the financial statements was necessary.

Cash and cash equivalents and bank overdraft

9. The municipality did not correctly accounted for cash and cash equivalents with a credit balance of R2 094 464 and bank overdraft with a credit balance of R5 906 269 as disclosed in the statement of financial position due to differences between the supporting documentation and the accounting records. Cash and cash equivalents of with a credit balance of R8 000 733 as disclosed in note 11 to the financial statements, which comprise of cash and cash equivalents of (R2 094 464) and bank overdraft of R5 906 269, is understated by R9 508 989 and accumulated surplus understated by R9 508 989.

Property, plant and equipment

10. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment due to differences between the financial statements and the accounting records. I was unable to confirm property, plant and equipment by alternative means. In addition, the municipality did not account for any depreciation or make an assessment of residual values and useful lives on property, plant and equipment as required by GRAP 17, *Property, plant and equipment* during the year, based on the asset register property, plant and equipment was overstated by R42 948 092 and depreciation was understated by R42 948 092. Consequently, I was unable to determine whether any further adjustment relating to property, plant and equipment of R571 204 302 as disclosed in note 4 to the financial statements was necessary.

Payables from exchange transactions

11. I was unable to obtain sufficient appropriate audit evidence for payables from exchange transactions due to differences between the financial statements and the accounting records. I was unable to confirm these payables by alternative means. Consequently, I was unable to determine whether any adjustment relating to payables from exchange transactions of R138 486 967 as disclosed in note 15 to the financial statements was necessary.

Unspent conditional grants

12. I was unable to obtain sufficient appropriate audit evidence for government grants and subsidies due to differences between the financial statements and the accounting records. I was unable to confirm the related revenue or liabilities by alternative means. Consequently, I

was unable to determine whether any adjustments relating to unspent conditional grants of R21 306 629 as disclosed in note 13 or the revenue from government grants and subsidies of R113 291 102 as disclosed in note 22 to the financial statements was necessary.

Provisions

13. I was unable to obtain sufficient appropriate audit evidence for provisions due to differences between the financial statements and the accounting records. I was unable to confirm these provisions by alternative means. In addition, the municipality incorrectly classified a leave reserve funds as provisions, resulting in provisions being overstated by R4 804 349 and payables from exchange transactions being understated by R4 804 349. Consequently, I was unable to determine whether any further adjustment relating to provisions of R22 674 202 as disclosed in note 14 to the financial statements was necessary.

Current tax receivable

14. I was unable to obtain sufficient appropriate audit evidence for the current tax receivable due to differences between the financial statements and the accounting records. I was unable to confirm this asset by alternative means. Consequently, I was unable to determine whether any adjustment relating to current tax receivable of R4 385 680 as presented in the statement of financial position was necessary.

Accumulated surplus

15. I was unable to obtain sufficient appropriate audit evidence for accumulated surplus due to differences between the financial statements and the accounting records. I was unable to confirm the accumulated surplus by alternative means. Consequently, I was unable to determine whether any adjustment relating accumulated surplus of R531 605 541 as presented in the statement of financial position and statement of changes in net assets was necessary.

Fines, Penalties and Forfeits

16. I was unable to obtain sufficient appropriate audit evidence for fines, penalties and forfeits due to differences between the financial statements and the accounting records. I was unable to confirm these fines, penalties and forfeits by alternative means. Consequently, I was unable to determine whether any adjustment relating to fines, penalties and forfeits of R32 777 599 as presented in the statement of financial performance was necessary.

Employee related costs

17. I was unable to obtain sufficient appropriate audit evidence for employee related costs as information requested from management was not made available for audit. I was unable to confirm the employee related costs by alternative means. In addition, remuneration of councilors was incorrectly classified resulting in remuneration of councillors being overstated by R2 383 578 and employee related costs being understated by R2 383 578. Consequently, I was unable to determine whether any further adjustment relating to employee related costs of R55 353 579 as disclosed in note 23 to the financial statements was necessary.

Service charges

18. I was unable to obtain sufficient appropriate audit evidence for service charges due to differences between the financial statements and the accounting records. I was unable to confirm these service charges by alternative means. Consequently, I was unable to determine whether any adjustment relating to service charges of R31 011 427 as disclosed in note 18 to the financial statements was necessary.

Finance costs

19. I was unable to obtain sufficient appropriate audit evidence for finance costs as information requested from management was not made available for audit. I was unable to confirm finance costs by alternative means. Consequently, I was unable to determine whether any adjustment relating to finance costs of R4 332 462 as disclosed in note 27 to the financial statements was necessary.

General expenses

20. I was unable to obtain sufficient appropriate audit evidence for general expenses as the information requested from management was not made available for audit. I was unable to confirm general expenses by alternative means. In addition, general expenses was not correctly classified resulting in repairs and maintenance included in general expenses being overstated by R17 247 622, property, plant and equipment understated by R2 667 259 and rental of facilities and equipment understated by R14 580 363. Consequently, I was unable to determine whether any adjustment relating to general expenses of R65 876 537 disclosed in note 30 to the financial statements was necessary.
21. Repairs and maintenance of R21 804 898 as disclosed in note 30 to the financial statements does not agree to repairs and maintenance of R14 999 456 as disclosed in note 43 to the financial statements.

Cash flow statement

22. I was unable to obtain sufficient appropriate audit evidence for the cash flow statement due to differences between the financial statements and the accounting records. I was unable to confirm the cash flow statement by alternative means. In addition, the calculation of the net cash flows from operating and investing activities did not appropriately account for cash and non-cash items as required by GRAP 2, *Cash flow statements*. I was unable to quantify the resultant misstatements as it was impracticable to do so. Consequently, I was unable to determine whether any adjustment relating to the cash flow statement or notes thereto was necessary.

Statement of comparison of budget and actual amounts

23. The municipality did not disclose the comparison of budget and actual amounts on a comparable basis and by way of a note disclosure, explanations of material differences between the budget and actual amounts as required by GRAP 24, *Presentation of budget information in financial statements*. I could not quantify the full extent of differences between budget and actual amounts or explanation of material differences as it was impracticable to do so.

Related parties

24. The municipality did not have adequate policy, processes and systems in place to correctly account for related party transactions as required by GRAP 20, *Related Parties*. Related party transactions of R4 584 700 reported in 2017 have been understated as disclosed in the note 35 to the financial statements.

Contingencies

25. I was unable to obtain sufficient appropriate audit evidence for contingencies as information requested from management was not made available for audit. I was unable to confirm these contingencies by alternative means. In addition, the contingencies as disclosed in note 34 was overstated by R30 620 173 when compared with external confirmations. Consequently, I was unable to determine whether any further adjustment relating to contingencies of R44 882 339 as disclosed in note 34 to the financial statements was necessary.

Operating leases

26. The municipality did not disclose the total minimum lease payments for operating leases for the following five years as required by GRAP 13, *Leases*. As the municipality did not quantify the full extent of lease on operating rentals, it was impracticable to determine the resultant full extent of non-disclosure of lease on operating rentals

Emphasis of matters

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

Unauthorised, irregular and fruitless and wasteful expenditure

28. As disclosed in note 37 to the financial statements, unauthorised expenditure of R171 572 808 in respect of prior years had not yet been dealt with in accordance with section 32 of the MFMA.
29. As disclosed in note 38 to the financial statements, fruitless and wasteful expenditure of R4 562 916 was incurred in the current year and fruitless and wasteful expenditure of R20 809 553 from prior years had not yet been dealt with in accordance with section 32 of the MFMA.
30. As disclosed in note 39 to the financial statements, irregular expenditure of R14 150 473 was incurred in the current year and irregular expenditure of R54 950 716 from prior years had not yet been dealt with in accordance with section 32 of the MFMA.

Material losses

31. As disclosed in note 28 to the financial statements, debt impairment of R27 436 200 was provided for on traffic fines.
32. The municipality did not disclose electricity distribution losses in the current year as required by section 125(2)(d)(i) of the MFMA.

Other matters

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

Unaudited disclosure notes

34. 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

35. 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 this / these schedule(s) and, accordingly, I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

36. 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 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) 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.

37. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends 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

38. 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.

39. 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

40. 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 programme presented in the annual performance report. I was engaged to perform procedures to raise findings but not to gather evidence to express assurance.

41. I was engaged to evaluate 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 programmes presented in the annual performance report of the municipality for the year ended 30 June 2018.

42. I was unable to obtain sufficient appropriate audit evidence for the selected listed below as the annual performance report was presented without accurate and complete underlying performance records to audit usefulness and reliability of reported performance information. This was due to limitations placed on the scope of my work. I was unable to audit the reported performance information for the selected programme by alternative means:

Programmes	Pages in the annual performance report
<i>KPA 1: Basic services and infrastructure</i>	61 – 63

Report on audit of compliance with legislation

Introduction and scope

43. 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.

44. The material findings on compliance with specific matters in key legislation are as follows:

Consequence management

45. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Procurement and contract management

46. 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).

47. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

Annual financial statement and annual report

48. 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 not subsequently corrected, resulting in the financial statements receiving a disclaimer audit opinion.

49. The 2016/17 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.

50. 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

51. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e).

52. Effective steps were not taken to prevent irregular expenditure of R14 150 473 as disclosed in note 39 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 SCM regulations due to deviations being inadequately approved.

53. Effective steps were not taken to prevent fruitless and wasteful expenditure of R4 562 916, as disclosed in note 38 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 and penalties on long outstanding accounts.

Internal control deficiencies

54. 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 has not ensured that there are appropriately skilled staff in key positions within the finance, performance and compliance unit. This has led to excessive reliance on consultants to compile financial information and manage information systems. Further, leadership's in-year monitoring and oversight was inadequate to prevent material limitations in the financial statements, non-compliance with laws and regulations and the

absence of systems to support the collection, processing and reporting on performance against pre-determined objectives.

- Management did not monitor financial and performance reporting, compliance with laws and regulations and internal controls. Despite appointing consultants to compile the financial statements submitted for auditing, the statements were poorly supported by accurate and complete accounting records. Furthermore, lack of internal controls and oversight contribute to inaccurate and unreliable financial reports and records. In addition, there are no systems in place to enforce compliance with laws and regulations and no actions are taken against staff that is responsible for these transgressions.
- The governance structures at the municipality, albeit that they are in place and functioning, has not been successful in overseeing the implementation of audit action plans and recommendations nor ensuring the preparation of complete and accurate financial statements, compliance with laws and regulations or performance against pre-determined objectives.

Rustenburg

30 November 2018



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