



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 2019, 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. During 2018, 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. As a result, inventories were overstated by R49 463 121 and property, plant and equipment was understated by R49 463 121 in that year. My audit opinion on the financial statements for the period ended 30 June 2018 was modified accordingly. Consequently, my opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

##### Receivables from exchange transactions

4. 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. In addition, I was unable to obtain sufficient appropriate audit evidence for adjustments of R15 696 493 to the corresponding figure as information requested from management was not made available. 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 R17 368 770 (2018: R8 552 601) as disclosed in note 9 to the financial statements was necessary.

##### Investment property

5. The municipality did not correctly accounted for investment property as required by GRAP 16, *Investment property* as the fair value of adjustment of investment property was incorrectly



classified as gains on disposal of property, plant and equipment and the Koster golf course was incorrectly classified as land and buildings. In addition, the accounting policy of investment property does not address subsequent measurement of investment property. Consequently, investment property was understated by R9 753 896, accumulated surplus was understated by R4 054 000 and land and buildings was overstated by R13 807 896.

### Receivables from non-exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence for receivables from non-exchange receivables transactions due to differences between the financial statements and the accounting records. In addition, I was unable to obtain sufficient appropriate audit evidence for adjustments of R1 116 108 to the corresponding figure as information requested from management was not made available. I was unable to confirm these receivables by alternative means. Further, the municipality did not disclose the gross amount and impairments for these receivables. Consequently, I was unable to determine whether any adjustment relating to receivables from non-exchange transactions of R32 590 931 (2018: R26 243 628) as disclosed in note 10 to the financial statements was necessary.

### Consumer debtors

7. The municipality incorrectly classified receivables from property rates and VAT as consumer debtors contrary to the requirements of GRAP 1, *Presentation of financial statements*. As a result, consumer debtors was overstated by R37 237 371 (2018: R32 214 764), receivables from non-exchange transactions was understated by R19 191 789 (2018: R15 027 719) and VAT was understated by R18 045 582 (2018: R17 187 045). In addition, I was unable to obtain sufficient appropriate audit evidence for consumer debtors due to differences between the financial statements and the accounting records and for adjustments of R111 441 833 to the corresponding figure as information requested from management was not made available. I was unable to confirm these debtors by alternative means. Consequently, I was unable to determine whether any further adjustment relating to consumer debtors of R49 916 948 (2018: R37 618 594) as disclosed in note 11 to the financial statements was necessary.

### Cash and cash equivalents

8. I was unable to obtain sufficient appropriate audit evidence for cash and cash equivalents due to differences between the financial statements and the accounting records. In addition, I was unable to obtain sufficient appropriate audit evidence for adjustments of R2 377 635 to the corresponding figure as information requested from management was not made available. I was unable to confirm cash and cash equivalents by alternative means. In addition, transactions of R64 353 876 identified from the bank statements have not been recorded in the general ledger. I was unable to quantify the resultant misstatement on revenue and expenditure as it was impracticable to do so. Consequently, I was unable to determine whether any further adjustment relating to cash and cash equivalents of R59 155 263 (2018: R1 472 763) as disclosed in note 12 to the financial statements was necessary.

### Property, plant and equipment

9. I was unable to obtain sufficient appropriate audit evidence for prior year adjustments of R19 872 732 to property, plant and equipment as information requested from management was not made available. I was unable to confirm the property, plant and equipment by alternative means. In addition, the municipality did not correctly assess the residual values and useful lives on moveable assets as required by GRAP 17, *Property, plant and equipment*. I was unable to quantify the resultant misstatements as it was impracticable to do so. Consequently, I was unable to determine whether any further adjustments relating to property, plant and equipment of R644 624 213 (2018: R555 997 776) as disclosed in note 4 to the financial statements were necessary.

### Payables from exchange transactions

10. 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. In addition, I was unable to obtain sufficient appropriate audit evidence for adjustments of R8 443 329 to the corresponding figure as information requested from management was not made available. I was unable to confirm payables by alternative means. Consequently, I was unable to determine whether any adjustment relating to payables from exchange transactions of R222 138 015 (2018: R146 930 296) as disclosed in note 16 to the financial statements were necessary.

### Unspent conditional grants and receipts

11. I was unable to obtain sufficient appropriate audit evidence for unspent conditional grants and receipts due to differences between the financial statements and the accounting records. I was unable to confirm the unspent conditional grants by alternative means. In addition, I was unable to obtain sufficient appropriate audit evidence for adjustments of R11 752 727 to the corresponding figure as information requested from management was not provided. Furthermore, current year receipts of R45 344 345. Identified from the bank statements was not included in unspent conditional grants and receipts. Consequently, I was unable to determine whether any adjustment relating to unspent conditional grants and receipts of R62 047 628 (2018: R33 059 357) as disclosed in note 13 to the financial statements was necessary.

### Provisions

12. 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 R8 072 894 and payables from exchange transactions being understated by R8 072 894. Furthermore, the employee benefit cost included in note 14 is duplicated in note 6, while the non-current amount of R2 516 000 disclosed in note 6 is not disclosed in the statement of financial position. Consequently, I was unable to determine whether any further adjustment relating to provisions of R27 051 762 (2018: R22 304 672) as disclosed in note 14 to the financial statements was necessary.

### Loans from related parties

13. I was unable to obtain sufficient appropriate audit evidence for loans from related parties due to differences between the financial statements and the accounting records. I was unable to confirm these loans by alternative means as information requested from management was not made available for audit. In addition, the municipality incorrectly classified these loans, resulting in loans from related parties being overstated by R10 005 000 and unspent conditional grants being understated by the same amount. Further, the amount disclosed in note 43 for loans from related parties of R20 805 000 does not agree with the value disclosed in the statement of financial position. Consequently, I was unable to determine whether any adjustment relating to loans from related parties of R10 005 000 as disclosed in the statement of financial position or loans from related parties of R20 805 000 as disclosed in note 43 to the financial statements was necessary.

### Value added tax (VAT)

14. I was unable to obtain sufficient appropriate audit evidence for the VAT due to differences between the financial statements and the accounting records. In addition, I was unable to obtain sufficient appropriate audit evidence for adjustments of R3 627 839 to the corresponding figure as information requested from management was not made available. I was unable to confirm VAT by alternative means. Consequently, I was unable to determine



whether any adjustment relating to VAT of R1 224 663 (2018: -R757 841) as disclosed in note 14 to the financial statements was necessary.

#### Accumulated surplus

15. I was unable to obtain sufficient appropriate audit evidence for the accumulated surplus due to differences between the financial statements and the accounting records and for restatements to the corresponding figure and prior period errors as information requested from management was not made available. I was unable to confirm the accumulated surplus by alternative means. Consequently, I was unable to determine whether any adjustment relating the accumulated surplus of R505 011 952 (2018: R493 451 079) as presented in the statement of financial position and statement of changes in net assets was necessary.

#### Fines, penalties and forfeits

16. Contrary to the requirements of IGRAP1, *Applying the probability on initial recognition of revenue*, the municipality did not perform a probability test on the initial recognition of traffic fines. The tariffs charged for fines also do not agree with tariffs approved by council. I was unable to quantify the resulting misstatements as it was impracticable to do so. In addition, I was unable to obtain sufficient audit evidence fines, penalties and forfeits due to differences between the traffic fine reports and the accounting records. I was unable to confirm this revenue by alternative means. Consequently, I was unable to determine whether any further adjustment relating to revenue from fines, penalties and forfeits of R7 208 000 (2018: R32 777 599) as presented in the statement of financial performance was necessary.

#### Licenses and permits

17. I was unable to obtain sufficient appropriate audit evidence for licenses and permits and adjustments of R648 981 to the corresponding figures as information requested from management was not made available. I was unable to confirm this revenue by alternative means. Consequently, I was unable to determine whether any adjustment relating to revenue from licenses and permits of R11 941 164 (2018: R6 037 298) as presented in the statement of financial performance was necessary.

#### Interest on outstanding debtor balances

18. I was unable to obtain sufficient appropriate audit evidence for interest on outstanding debtor balances due to the limitation of scope on consumer debtors being that information requested from management for consumer debtors was not made available. I was unable to confirm this revenue by alternative means. Consequently, I was unable to determine whether any adjustment relating to interest on outstanding debtor balances of R14 801 422 (2018: R15 093 421) as disclosed in note 21 to the financial statements was necessary.

#### Property rates

19. I was unable to obtain sufficient appropriate audit evidence for property rates as information requested from management, including the valuation roll, was not made available. I was unable to confirm this revenue by alternative means. Consequently, I was unable to determine whether any adjustment relating to revenue from property rates of R7 325 475 (2018: R7 578 732) as disclosed in note 23 to the financial statements was necessary.

#### Employee related costs

20. I was unable to obtain sufficient appropriate audit evidence for employee related costs as information requested was not provided. In addition, management incorrectly accounted for employee costs due to differences between the accounting records and the financial statements. I was unable to confirm employee costs by alternative means. Consequently, I was unable to determine whether any adjustment to employee related costs of R57 392 051 (2018: R55 298 006) as disclosed in note 25 to the financial statements was necessary.





### Service charges

21. I was unable to obtain sufficient appropriate audit evidence for sale of water due to differences between the financial statements and the accounting records and for sale of electricity due to differences between the reports from the service provider and the accounting records. I was also unable to obtain sufficient appropriate audit evidence for adjustments of R25 184 779 to the corresponding figure for sale of water as information requested from management was not made available. I was unable to confirm this revenue by alternative means. Consequently, I was unable to determine whether any adjustment relating to revenue from service charges of R49 220 848 (2018: R56 196 206) as disclosed in note 18 to the financial statements was necessary.

### Government grants and subsidies

22. I was unable to obtain sufficient appropriate audit evidence for government grants and subsidies and for adjustments of R5 286 573 to the corresponding figure as information requested from management was not made available. Consequently, I was unable to determine whether any adjustment relating to revenue from government grants and subsidies of R131 353 178 (2018: R105 806 395) as disclosed in note 24 to the financial statements was necessary.

### Finance costs

23. I was unable to obtain sufficient appropriate audit evidence for finance costs as information requested from management was not made available. I was unable to confirm finance costs by alternative means. Consequently, I was unable to determine whether any adjustment relating to finance costs of R8 616 831 (2018: R4 692 627) as disclosed in note 28 to the financial statements was necessary.

### Lease rentals on operating leases

24. In addition, I was unable to obtain sufficient appropriate audit evidence for lease rental on operating leases as information requested from management was not made available. I was unable to confirm these lease rentals by alternative means. Consequently, I was unable to determine whether any adjustment to lease rental on operating leases of R13 601 997 (2018: R714 295) as presented in statement of financial performance was necessary. In addition, the municipality did not disclose the information relating to these operating leases as required by GRAP 13, *Leases*. I was unable to quantify the omitted disclosure as it was impracticable to do so.

### Bulk purchases

25. I was unable to obtain sufficient appropriate audit evidence for bulk purchases as information requested from management was not made available. I was unable to confirm bulk purchases by alternative means. Consequently, I was unable to determine whether any adjustment relating to bulk purchases of R30 421 528 as disclosed in note 30 to the financial statements was necessary.

### General expenses

26. I was unable to obtain sufficient appropriate audit evidence for general expenses and adjustments of R11 097 024 to the corresponding figure as information requested from management was not made available and the state of the accounting records. I was unable to confirm general expenses by alternative means. Consequently, I was unable to determine whether any adjustment relating to general expenses of R70 372 446 (2018: R71 564 692) as disclosed in note 31 to the financial statements was necessary.

### Cash flow statement

27. 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. 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

28. I was unable to obtain sufficient appropriate audit evidence for the amounts in the statement of comparison of budget and actual amounts due to differences between the financial statements and the accounting records and for the explanations provided for the differences between the final budget and actual amounts as the explanations bear no relation to the difference identified. I was unable to confirm these amounts and explanations by alternative means. Consequently, I was unable to determine whether any adjustment relating to the statement of comparison of budget and actual amounts was necessary.

### Related parties

29. 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* due to the status of the accounting records. Related party transactions of R20 805 000 reported in note 43 has not been disclosed in note 36.

### Contingencies

30. I was unable to obtain sufficient appropriate audit evidence for contingencies due to differences between the financial statements and the accounting records. In addition, the municipality incorrectly disclosed successful claims against the municipality as contingent liabilities. Consequently, contingent liabilities as disclosed in note 35 to the financial statements was overstated by R38 365 226 and payables from exchange transactions understated by the same amount.

### Commitments

31. I was unable to obtain sufficient appropriate audit evidence for commitments as information requested from management was not made available. I was unable to confirm commitments by alternative means. In addition, capital commitments was understated by R18 111 989 and operational commitments was overstated by R1 247 616. Consequently, I was unable to determine whether any further adjustments relating to capital commitments of R85 256 006 and operational commitments of R26 209 444 as disclosed in note 34 to the financial statements were necessary.

### Prior period errors

32. I was unable to obtain sufficient appropriate audit evidence for the prior period errors due to the state of the accounting records. I was unable to confirm these adjustments by alternative means. In addition, the municipality did not correctly disclose prior period adjustments as required by GRAP 3, *Accounting policies, changes in accounting estimates and errors* as the nature, the amount of the correction for each financial statement item affected and the amount of the correction at the beginning of the earliest prior period were not disclosed. Consequently, I was unable to determine whether any further adjustment to the prior period errors as disclosed in note 37 to the financial statements was necessary.

### Unauthorised expenditure

33. I was unable to obtain sufficient appropriate audit evidence for unauthorised expenditure and for adjustments of R23 773 926 to the corresponding figure as information requested from management was not made available. I was unable to confirm the unauthorised expenditure



by alternative means. Consequently, I was unable to determine whether any adjustment relating to unauthorised expenditure of R276 688 544 (2018: R195 346 869) as disclosed in note 39 to the financial statements was necessary.

#### **Irregular expenditure**

34. I was unable to obtain sufficient appropriate audit evidence for irregular expenditure due to differences between the financial statements and the accounting records and for adjustments of R18 496 178 to the corresponding figure as information requested from management was not made available. I was unable to confirm the irregular expenditure by alternative means. In addition, The municipality made payments of R28 635 425 in contravention with the supply chain management requirements which were not included in irregular expenditure disclosed. Consequently, I was unable to determine whether any further adjustment relating to irregular expenditure of R89 527 760 (2018: R50 605 011) as disclosed in note 41 to the financial statements was necessary.

#### **Fruitless and wasteful expenditure**

35. I was unable to obtain sufficient appropriate audit evidence for fruitless and wasteful expenditure as information requested from management was not made available for audit as well as the state the accounting records. I was unable to confirm the fruitless and wasteful expenditure by alternative means. In addition, fruitless and wasteful expenditure was understated by R3 932 436. Consequently, I was unable to determine whether any further adjustment relating to fruitless and wasteful expenditure of R33 561 570 (2018: R25 672 231) as disclosed in note 40 to the financial statements was necessary.

#### **Going concern**

36. The municipality's current liabilities exceeded its current assets by R144 899 722 as at 30 June 2019 which, along with other matters, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern. The aforementioned information has not been disclosed in the notes to the financial statements. In addition, the municipality has not made an assessment of its ability to continue as a going concern.

#### **Emphasis of matter**

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

#### **Material losses**

38. As disclosed in note 29 to the financial statements, the municipality incurred an expense of R10 356 452 (2018: R58 919 798) for the increase in debt impairment provided for consumer debtors.

#### **Other matters**

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

#### **Unaudited disclosure notes**

40. In terms of section 125(2)(e) of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (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

41. 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

42. 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, 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.
43. 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

44. 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.
45. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants*, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) and the ethical requirements that are relevant to my audit of the financial statements in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.

## Report on the audit of the annual performance report

46. I was unable to obtain sufficient appropriate audit evidence for the selected programme 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:
- KPA 1: Basic services and infrastructure

## Report on audit of compliance with legislation

### Introduction and scope

47. 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.
48. The material findings on compliance with specific matters in key legislation are as follows:





## Consequence management

49. 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

50. 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.
51. Quotations were accepted from bidders and some of the contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.
52. Quotations were accepted from bidders and some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43. Similar non-compliance was also reported in the prior year.
53. The preference point system was not applied in some of the procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act.
54. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.
55. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year. This non-compliance was identified in the key projects for the boreholes drilling and equipping in Derby and the refurbishment of the waste treatment plant in Mazista.
56. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.

## Annual financial statement and annual report

57. 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.
58. 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.
59. The 2017-18 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.
60. The council failed to adopt an oversight report containing the council's comments on the 2017-18 annual report within the prescribed timelines, as required by section 129(1) of the MFMA.

## Asset management

61. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.
62. An investment policy adopted by council was not in place, as required by section 13(2) of the MFMA and regulation 3(1)(a) of the Municipal Investment Regulations.
63. Capital assets were disposed of without evidence that the municipal council have considered whether the assets were still needed to provide the minimum level of basic municipal services



or considered the fair market value of the assets and the economic and community value to be received in exchange for the assets, as required by section 14(1), 14(2)(a) and 14(2)(b) of the MFMA.

### Revenue management

64. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.

### Expenditure management

65. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e).
66. I was unable to obtain sufficient appropriate audit evidence that payments from the municipality's bank account were approved by the accounting officer, the chief financial officer or a properly authorised official, as required by section 11(1) of the MFMA.
67. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the approval, authorisation and payment of funds, as required by section 65(2)(a) of the MFMA.
68. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, as required by section 65(2)(b) of the MFMA.
69. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by the non-compliance with supply chain management regulations due to deviations been inappropriately approved.
70. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the fruitless and wasteful expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed fruitless and wasteful expenditure was caused due to interest and penalties on long outstanding accounts.
71. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the unauthorised expenditure could not be quantified as indicated in the basis for qualification paragraph.

### Conditional grants

72. I was unable to obtain sufficient appropriate audit evidence that the Municipal Infrastructure Grant, the Drought Relief Grant, the Water Services Infrastructure Grant and the EPWP Grant was spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of the DoRA.
73. Performance in respect of programmes funded by the Municipal Infrastructure Grant, the Drought Relief Grant, the Water Services Infrastructure Grant and the was not evaluated within two months after the end of the financial year, as required by section 12(5) of the DoRA.
74. Performance in respect of programmes funded by the EPWP grant was not evaluated within two months after the end of the financial year, as required by section 11(6)(b) of the DoRA.

### Internal control deficiencies

75. 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 failed to appoint appropriately skilled staff in key positions within the finance, performance and compliance units of the municipality. This has led to payments being made without following the relevant internal controls for capturing, approval and payment of accounts. As a result, an extensive number of transactions have not been captured in the general ledger resulting in unreliable financial statements. The overreliance on consultants to produce financial statements is voided by the quality of information on which they rely. Further, leadership's lack of in-year monitoring and oversight has resulted in 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.
- Managements review and monitoring of financial and performance reporting, compliance with laws and regulations and internal controls is severely lacking. The cost of appointing consultants to prepare financial statements is fruitless when considering the quality of information on which they must rely. In addition, there are no systems in place to enforce compliance with laws and regulations and no actions are taken against staff responsible for poor performance.
- The governance structures at the municipality remain unsuccessful in achieving the oversight in the implementation of audit action plans and recommendations. The preparation of complete and accurate financial statements, compliance with laws and regulation and the performance against predetermined objectives is disappointing.

*Audite General*

Rustenburg

Date *20 December 2019*



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