

# Report of the auditor-general to the Limpopo legislature and the council of Elias Motsoaledi Local Municipality.

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of Elias Motsoaledi 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 information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Elias Motsoaledi Local municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with (South Africa Standard of Generally Recognised Accounting Practice (SA standard 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 opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Emphasis of matters

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

### Restatement of the corresponding figures

7. As disclosed in note 41 to the financial statement, the corresponding figures for 30 June 2017 have been restated as a results of errors discovered in the financial statements of the municipality at, and for the year ended, 30 June 2017.

### Significant uncertainties

8. As disclosed in note 38 to the financial statements, the municipality is the defendant in various lawsuits. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

### Unauthorised expenditure

9. As disclosed in note 45 to the financial statements, unauthorised expenditure to the amount of R75 392 906 was incurred, as the total amount appropriated in the municipality's approved budget has been overspent.

### Material distribution losses

10. As disclosed in note 48 to the financial statements, material electricity losses of R14 505 057 (2016-17: R21 199 619) was incurred, which represents 29.8% (2016-17: 44%) of total electricity purchased.

### Other matters

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

### Unaudited disclosure notes

12. 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

13. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

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

14. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA standards of GRAP and the requirements of the MFMA and the DoRA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
15. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting officer 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

16. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of

assurance, but is not a guarantee that an audit conducted in accordance with 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.

17. 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

18. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
19. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
20. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2018.

Objectives	Pages in annual performance report
KPA 1: Spatial development analysis and rationale	7 – 8
KPA 4: Basic service delivery and infrastructure development	14,15, 21 – 23, 26 – 37, 38 – 40 and 45

21. 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.
22. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

## KPA 1: Spatial development analysis and rationale.

### % projects implemented based on SPLUMA

23. Performance indicators are not measurable, the source information and evidence for achieving the planned target does not relate to the indicator.

### % of inspections conducted on building construction with an approved plan to ensure compliance with National Building Regulations and Building Standards.

24. The indicator is not specific as to what is being measured from the National Building Regulations and Building Standards Act, 1977 (Act No. 103 of 1977). Inspection conducted does not on its own satisfactorily ensure compliance with the regulations.

## KPA 4: Basic service delivery and infrastructure development

### Various indicators

25. The systems and processes that enable reliable reporting of the achievement against these targets was not adequately designed. As a result, I was unable to obtain sufficient appropriate audit evidence for the reported achievements. 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 reported achievements in the annual performance report.

Indicator description	Reported Planned target	Reported achievement
% electrification of households in Makaepa	100%	100%
% electrification of households in Thambo village (extension)	100%	100%
% electrification of households in Jabulani D3	100%	100%
% electrification of households in Jerusalem	100%	100%
% electrification of households at Waalkraal A	100%	100%
% electrification of households at Elandsdoorn A	100%	100%
% electrification of households in Matsitsi	100%	100%

### % electrification of households at Tshehla trust

26. The percentage achievement for the target reported in the annual performance report was 100%. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of 0%.

### Other matter

### Achievement of planned targets

27. Refer to the annual performance report on pages 7 – 8, 14,15, 21 – 23, 26 – 37, 38 – 40 and 45 for information on the achievement of planned targets for the year. This information should be considered in the context of the opinions expressed on the usefulness and reliability of the reported performance information in paragraph 29 of this report.

## Introduction and scope

28. 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.
29. The material findings on compliance with specific matters in key legislations are as follows:

### Annual financial statements, performance and annual report

30. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

### Expenditure management

31. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
32. Effective steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
33. Effective steps were not taken to prevent irregular expenditure amounting to R74 094 607, as required by section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by the evaluation and adjudication criteria applied in evaluating and adjudicating bids, the bid adjudication committee decided to award the bids to someone other than the one recommended by the bid evaluation committee and awards being made to suppliers not receiving the highest points without objectionable and reasonable basis for the deviation.

### Revenue management

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

### Asset management

35. Funds were invested with Venda building society (VBS), in contravention of municipal investment regulation 6.
36. Capital assets were permanently disposed of without the approval of the council, as required by section 14(2)(a) of the MFMA.

### Procurement and contract management

37. Some of the quotations were accepted from 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.

38. Bid specifications for some of the tenders were drafted in a biased manner and did not allow all potential suppliers to offer their goods or services, in contravention of SCM regulation 27(2)(a). Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the EMLM 19/2018 - Recapitalisation of fleet and management solutions.
39. Some of the contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a) and the preferential procurement regulations. Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the EMLM 05/2018 - Groblersdal and street maintenance and resealing and EMLM 22/2018 - Appointment for panel of five attorneys for 3 years.
40. Bid documentation for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by preferential procurement regulation 9(1). Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the procurement of protective clothing.
41. Commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content as required by preferential procurement regulation 9(1). Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the procurement of protective clothing.
42. Commodities designated for local content and production, were procured from suppliers who did not meet the prescribed minimum threshold for local production and content, as required by preferential procurement regulation 9(5). Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the procurement of protective clothing.
43. Sufficient appropriate audit evidence could not be obtained that all extensions or modifications to contracts were approved by a properly delegated official, as required by SCM regulation 5.
44. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of the code of conduct for councillors issued in terms of the Municipal Systems Act, 2000 (Act No. 32 of 2000).
45. 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.
46. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, in contravention of section 116(2)(c) of the MFMA.

## Fraud and consequence management

47. Irregular 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.
48. 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

49. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in the auditor's report.
50. 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.
51. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
52. 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

53. 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 on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
54. The review and monitoring of the financial and performance reporting, by the accounting officer is inadequate. This resulted in the annual financial statements and the annual performance report containing material misstatements.
55. The action plan developed by the municipality to address internal and external audit findings does not ensure that root causes that resulted in the findings are resolved.

56. The municipality did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

57. Management's ineffectiveness in implementing recommendations from the internal and external auditors as well as inaccurate and unreliable financial and performance reports submitted prevented the audit committee to evaluate and monitor responses to risks in order to promote accountability and service delivery. Oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations was thus not effective.

Auditor General  
Polokwane

30 November 2018



AUDITOR - GENERAL  
SOUTH AFRICA

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## **Annexure – Auditor-general’s responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the municipality’s compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in 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 Elias Motsoaldei 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.