

Auditor's report

Lekwa Local Municipality

30 June 2016

Report of the auditor-general to the Mpumalanga Provincial Legislature and the council on the Lekwa Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Lekwa Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these 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, 2015 (Act No. 1 of 2015) (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.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Lekwa Local Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

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

Going concern

8. As disclosed in note 44 to the financial statements, the municipality incurred a net loss of R233 363 200 during the year ended 30 June 2016 and, as of that date, the municipality's current liabilities exceeded its total assets by R356 977 227. The annual financial statements were prepared on the basis applicable to a going concern.

Restatement of corresponding figures

9. As disclosed in note 41 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of an error discovered during the year ended 30 June 2016 in the financial statements of the municipality at, and for the year ended, 30 June 2016.

Material losses

10. As disclosed in note 50 to the financial statements, material losses of R72 113 118 (2014-15: R89 020 932) were incurred as a result of electricity distribution losses, which represented 26% (2014-15: 30%) of the total electricity purchased. Material losses of R57 639 875 (2014-15: R6 803 934) were incurred as a result of water distribution losses, which represented 94% (2014-15: 61%) of the total water purchased.

Material impairments

11. As disclosed in note 11 to the financial statements, the receivables balance was significantly impaired. The impairment of consumer debtors amounted to R532 029 529 (2014-15: R431 870 102), which represented 88% (2014-15: 89%) of the total consumer debtors. The contribution to the provision for debt impairment was R100 159 428 (2014-15: R84 650 276).

Additional matter

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

Unaudited disclosure notes

13. 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.

Report on other legal and regulatory requirements

14. 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 findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with legislation and internal control. I performed tests to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2016:
 - Objective 1: basic service delivery on pages ... to ...
 - Objective 5: good governance and public participation on pages ... to ...
16. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for Managing Programme Performance Information (FMPPi).
17. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
18. The material findings in respect of the selected objectives are as follows:

Basic service delivery

Usefulness of reported performance information

19. Section 41(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) requires the annual performance report, integrated development plan and service delivery agreement to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 76% of the reported targets were not consistent with those in the service delivery and budget implementation plan.

Reliability of reported performance information

20. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported achievements against planned targets of important indicators were not reliable when compared to the evidence provided.

Good governance and public participation

Usefulness of reported performance information

21. Section 41(c) of the MSA requires the annual performance report, integrated development plan and service delivery agreement to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 52% of the reported targets were not consistent with those in the service delivery and budget implementation plan.

Reliability of reported performance information

22. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported achievements against planned targets of important indicators were not reliable when compared to the evidence provided.

Additional matter

23. I draw attention to the following matter:

Achievement of planned targets

24. Refer to the annual performance report on pages ... to ... and ... to ... for information on the achievement of the 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 19 to 22 of this report.

Compliance with legislation

25. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Annual financial statements, performance report and annual report

26. 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 non-current assets, current liabilities, non-current liabilities and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

27. 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 supply chain management (SCM) regulation 13(c).
28. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
29. 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.
30. 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.

Expenditure management

31. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA.
32. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.
33. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Consequence management

34. 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.
35. Irregular 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 and municipal budget and reporting regulation 75(1).
36. 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 and municipal budget and reporting regulation 75(1).

Internal control

37. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

38. Management did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.

Financial and performance management

39. Management did not prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information.
40. Management did not review and monitor compliance with applicable laws and regulations.

Governance

41. Management did not ensure that there was a properly staffed and functioning internal audit unit throughout the financial year.

Auditor - General

Mbombela

30 November 2016



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence