



AUDITOR-GENERAL
SOUTH AFRICA

Auditor's report

Ephraim Mogale Local Municipality

30 June 2017

Report of the auditor-general to the Limpopo provincial legislature and the council on Ephraim Mogale Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Ephraim Mogale Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, and cash-flow statement and 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, except for the effects of the matters described in the basis for qualified opinion section of this report, the financial statements present fairly, in all material respects, the financial position of municipality as at 30 June 2017 and its financial performance and cash flows for the year then ended, in accordance with the South African Standards of Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act, 2016 (Act No. 3 of 2016) (DoRA).

Basis for qualified opinion

Property, plant and equipment

3. The municipality did not recognise all items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. I identified property, plant and equipment of R11 642 148 (2015-16: Unknown) belonging to the municipality that was not included in the underlying records, as the municipality did not have adequate systems. Additionally, there is a resultant impact on the accumulated surplus.

Context for the opinion

4. 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 my report.
5. 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 in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matter

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

Restatement of corresponding figures

8. As disclosed in note 49 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2017.

Irregular expenditure

9. As disclosed in note 43 to the financial statements, the municipality incurred irregular expenditure of R3 693 088, as a proper tender process had not been followed.

Material impairments – debt impairment

10. As disclosed in note 27 to the financial statements, the municipality raised a provision for doubtful debts to the amount of R9 402 871.

Other matters

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

Unaudited supplementary schedules

12. 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 thereon.

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.

Responsibilities of the party responsible 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 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 the 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 the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

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 key performance areas 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/measures 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 key performance areas presented in the annual performance report of the municipality for the year ended 30 June 2017:

Key performance areas	Pages in the annual performance report
Key performance area 2 – Basic service delivery and infrastructure development	x – x
Key performance area 3 – Local economic development	x – x

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 key performance areas are as follows:

Key performance area 2 – Basic service delivery and infrastructure development

Indicator: % of capital projects started on time in terms of the appointment of consultants/Contractors for EPMLM funded projects as per the capital implementation plan

23. The source information and/or evidence and/or method of calculation for the achievement of the planned indicator was not clearly defined, as required by the Framework for Managing Programme Performance Information (FMPPi).

Various indicators

24. The reported achievements of the indicators listed below were misstated, as the evidence provided did not agree with the reported achievements as follows:

Performance indicator	Reported achievement	Audited value
Number of KMs of storm water to be constructed in Ext 6 by 30 June 2017	1,294	0
Number of KM of Gravel roads to be constructed into tar by 30 June 2017	3,4	0
Review Roads Master plan and adopted by council by 31 March 2017	1	0
# of new / Reviewed policies adopted by council by 31 March 2017(Social)	1	0
# of new / Reviewed policies adopted by council by 31 March 2017(IS)	2	0
Number of m2 of base and surface patches to be repaired by 30 June 2017	4355,342	4246,64
% of households with access to basic level of waste removal by 30 June 2017	17,40%	16,56%

Various indicators

25. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of the indicators as per the table below. The municipality did not have an adequate record keeping system to enable reliable reporting on achievement of the indicators listed below. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of reported values below:

Performance Indicator	Reported achievement	Audited value
% of new Capital projects started on time In terms of the appointment of consultants / contractors for EPMLM funded	1	0

Performance indicator	Reported achievement	Audited value
projects as per the Capital implementation plan		
% of new capital projects completed in terms of agreed schedule for EPMLM funded projects by 30 Jun 2017	1	0
% Of Capital budget spend in terms of new IDP identified projects as per the capital implementation plan by 30 June 2017 (GKPI)	1	0

Key performance area 3 – Local economic development

Various indicators

26. The reported achievements of the indicators listed below were misstated, as the evidence provided did not agree with the reported achievements as follows:

Performance indicator	Reported achievement	Audited value
# of EPWP Job opportunities provided through EPWP grant by 30 June 2017(GKPI)	183	89
# of quarterly LED forum meeting held	4	3

Various indicators

27. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of the indicators as per the table below. The municipality did not have an adequate record keeping system to enable reliable reporting on achievement of the indicators listed below. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of reported values below:

Performance indicator	Reported achievement	Audited value
# of quarterly SMME's and Cooperatives capacity building workshops scheduled and held	4	0
# of Coop's supported with respect to financial support by 30 June 2017	4	0

Other matter

28. I draw attention to the matter below.

Achievement of planned targets

29. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year and explanations provided for the underachievement of a significant number of targets. This information should be

considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs xx to xx of this report.

Report on audit of compliance with legislation

Introduction and scope

30. 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.
31. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements

32. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.
33. Material misstatements of non-current assets, current liabilities, cash flow statement and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

34. Bid documentation for procurement of some of the 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.
35. 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 SCM regulation 46(2)(e).

Expenditure management

36. Effective steps were not taken to prevent irregular expenditure amounting to R3 693 088 as disclosed in note 43 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by tenders not advertised for a minimum period of 30 days.

Assets management

37. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

Human resource management

38. Senior manager failed to disclose financial interests within 60 days from date of appointment, as required by regulation 36(1)(a) on Appointment And Conditions Of Employment of Senior Managers.
39. The municipality did not develop and adopt appropriate systems (policies) and procedures to monitor measure and evaluate performance of staff in contravention of section 67(d) of the Municipal System Act,2000 (Act no.32 of 2000) (MSA).

Other information

40. The municipality's 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 key performance areas presented in the annual performance report that have been specifically reported in the auditor's report.
41. 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.
42. 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 key performance areas presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
43. 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

44. 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 qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report:

Leadership

- 45. The municipality did not have sufficient monitoring controls to ensure the proper implementation of the overall processes of reporting on predetermined objectives and compliance with legislation.
- 46. There was no effective review of the financial statements and the annual performance report, resulting in several material misstatements being identified.
- 47. The accounting officer did not implement effective processes to ensure that the municipality has adequate and sufficiently skilled resources and that irregular and fruitless and wasteful expenditure is prevented

Financial and performance management

- 48. Controls over compliance with laws and regulations, daily and monthly processing and reconciling of transactions were not adequately monitored by the accounting officer.
- 49. The municipality does not have adequate skills in the finance unit resulting in over reliance on external consultants for financial reporting.
- 50. Supply chain management processes were inadequate due to poor monitoring, resulting in irregular expenditure.

Governance

- 51. Those charged with governance did not provide adequate oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

Auditor - General

Polokwane

30 November 2017



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence