

Report of the auditor-general to the Free State Legislature and the council on the Fezile Dabi District Municipality

Report on the audit of the financial statements

Adverse opinion

1. I have audited the financial statements of the Fezile Dabi District Municipality set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2017, the statement of financial performance, statement of changes in net assets and 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. In my opinion, because of the significance of the matters described in the basis for adverse opinion section of my report, the financial statements do not present fairly, in all material respects, the financial position of the Fezile Dabi District 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 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, 2016 (Act No. 3 of 2016) (DoRA).

Basis for adverse 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*. Additions to property, plant and equipment were incorrectly recognised as expenditure in previous years. Consequently, property, plant and equipment and revenue from donations were understated and total expenditure was overstated with a net amount of R123 185 505 in the annual financial statements. Additionally, there was a resultant impact on the surplus for the period and on the accumulated surplus in the annual financial statements.

Payables

4. The municipality did not recognise all outstanding amounts meeting the definition of a liability in accordance with GRAP 1, *Presentation of financial statements*. The municipality did not have adequate systems to maintain records of unspent conditional grants and goods and services received but not yet paid at year-end. This resulted in payables being understated and unspent conditional grants and receipts and expenditure overstated by R3 641 600.

Context for the opinion

5. 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 report.
6. 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.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse opinion.

Emphasis of matter

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

Restatement of corresponding figures

9. As disclosed in note 26 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2017.

Irregular expenditure

10. As disclosed in note 31 to the financial statements, irregular expenditure of R1 988 080 (2016: R26 341) was incurred due to non-compliance with supply chain management (SCM) requirements. In addition, the full extent of irregular expenditure was still in the process of being determined.

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 information

13. The appropriation statement 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 statement and, accordingly, I do not express an opinion on it.

Koppies Greenhouse (Hydroponic) Vegetable Production Enterprise

14. During June 2010, the municipality and a water board entered into an agreement with a supplier to erect a one-stop shop enterprise which comprises of the greenhouse structures, pack house with coolers for processing, a guard house and a mini-market with a kiosk for meat, eggs, snacks and commodities sourced from other markets. The first phase was the development of the feasibility study and second phase was to compile architectural design plans, 3D presentation and bill of quantities. This was completed by June 2014 and the municipality is currently in the implementation phase. According to the business plan, the project costs for the third phase will amount to R79 442 543. Some assets were erected at the property, but they were not recognised by the municipality. Currently, the project is also not progressing due to a lack of funds, and only R5 677 800 was paid up to date by the municipality since the 2013-14 financial year.

Fezile Dabi stadium

15. The Fezile stadium project was completed on 10 June 2013 for R121 401 000. Since that date the assets were not recognised at the municipality as property, plant and equipment. During the financial year under review, it was confirmed that the stadium was built on privately owned land in Ngwathe. This matter should be investigated by the municipality and may require legal processes to re-establish ownership of the land.

Responsibilities of the accounting officer for the financial statements

16. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and 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.

17. In preparing the financial statements, the accounting officer is responsible for assessing the Fezile Dabi District 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 intention is to liquidate the municipality or cease operations, or there is no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

18. 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.

19. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Introduction and scope

20. 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 (KPAs) presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
21. 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.
22. 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 selected KPA presented in the annual performance report of the municipality for the year ended 30 June 2016:

Key development area	Pages in the annual performance report
KPA 2 – basic service delivery and infrastructure development	x – x

23. 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.
24. The material finding in respect of the usefulness and reliability of the selected KPA is as follows:

One hundred per cent implementation of roads related projects executed by 30 June 2017

25. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the target – 100% implementation of roads related projects executed by 30 June 2017. This was due to a lack of supporting evidence. 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 100% implementation.

Other matters

26. I draw attention to the matters below.

Achievement of planned targets

27. Refer to the annual performance report on page x to x for information on the achievement of planned targets for the year and explanations provided for the under/overachievement of a number of targets. This information should be considered in the context of the material finding on the usefulness and reliability of the reported performance information in paragraph 23 of this report.

Adjustment of material misstatements

28. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the KPA – basic service delivery and infrastructure development. As management did not correct all misstatements, I raised a material finding on the usefulness and reliability of the reported performance information.

Report on audit of compliance with legislation

Introduction and scope

29. 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.

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

Strategic planning and performance management

31. The integrated development plan (IDP) did not include the key performance indicators and targets for basic services, as required by section 26(i) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) and municipal planning and performance management regulation 2(1)(e).

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. Material misstatements of non-current assets, liabilities 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 and supporting records that could not be provided resulted in the financial statements receiving an adverse audit opinion.

Procurement and contract management

33. 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 the SCM regulation 17(a) and (c).

Human resource management

34. Appointments were made in posts which were not provided for in the approved staff establishment, as required by section 66(3) of the Municipal Systems Act.

Consequence management

35. Irregular expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA and municipal budget and reporting regulation (MBRR) 75(1).
36. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA and regulation 75(1) of the MBRRs.
37. Some of the losses resulting from fruitless and wasteful expenditure were not recovered from the liable person, as required by section 32(2)(b) of the MFMA and regulation 75(2) of the MBRRs.
38. Some of the fruitless and wasteful expenditure was certified by the council as irrecoverable without having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(b) of the MFMA and regulation 75(2) of the MBRRs.

Other information

39. 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 the selected KPAs presented in the annual performance report that have been specifically reported in the auditor's report.
40. 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.
41. 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 KPAs presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
42. 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

43. 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 adverse opinion, the findings on the performance report and the findings on compliance with legislation included in this report.
44. The leadership did not always take an action that is adequate and on time to address weaknesses in the reporting on financial and performance management and predetermined objectives due to a lack of monitoring and supervision, which resulted in material adjustments and audit report matters.
45. The leadership did not interpret the requirements of the SCM Regulations correctly in the SCM section, which resulted in non-compliance with applicable legislation and irregular expenditure.
46. Consequence management was not effectively applied as the council did not investigate instances of irregular and fruitless and wasteful expenditure to determine whether any person was to be held liable for the expenditure. This was because the council did not appoint a committee to investigate the expenditure before it was written off.
47. Senior management did not ensure that supporting documentation for all indicators and targets was kept and that the reported information was consistent, accurate and complete. As a result, an issue was reported in the audit report that could have been prevented.
48. The late appointment of the consultants, inadequate monitoring of the financial statement compilation process, as well as a lack of skills and review by municipal officials resulted in material adjustments to the financial statements that could have been prevented.
49. Management did not regularly review and monitor compliance with legislation and the municipality's policies and procedures. As a result, significant non-compliance issues were noted that could have been prevented.
50. The internal audit unit did not adequately review and verify the information reported in the annual financial statements and performance report submitted for auditing. This resulted in various matters to be adjusted and corrected during the audit process that could have been prevented.

Bloemfontein

30 November 2017



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

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 key development area 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 the 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 Fezile Dabi District 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 the 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.