

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

Report on the financial statements

Introduction

1. I have audited the financial statements of the Xhariep District 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, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 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 entity'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 entity'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 Xhariep District Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with 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.

Restatement of corresponding figures

8. As disclosed in note 31 to the financial statements, the corresponding figures for the 30 June 2015 have been restated as a result of errors discovered during 2015-16 in the financial statements of the municipality at, and for the year ended, 30 June 2015.

Irregular Expenditure

9. As disclosed in note 37 to the financial statements, the municipality incurred irregular expenditure of R4 653 888 (2015: R3 710 358) in 2015-16 due to non-compliance with supply chain management (SCM) regulations.

Unauthorised Expenditure

10. As disclosed in note 35 to the financial statements, the municipality incurred unauthorised expenditure of R2 797 621 (2015: R746 110) during 2015-16 due to expenditure that exceeded the limit of the amount provided for in the main division of the approved budget.

Going concern

11. Note 33 to the financial statements indicates that the Xhariep District Municipality incurred a net loss of R6 937 981 during the year ended 30 June 2016 and, as of that date, the municipality's current liabilities exceeded its current assets by R9 763 148. These conditions, along with other matters as set forth in the note 33, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

Additional matters

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

Unaudited supplementary schedules

13. The supplementary information set out on pages x to x 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.

Unaudited disclosure notes

14. 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 on them.

Report on other legal and regulatory requirements

15. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected key performance areas presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was 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

16. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected key performance areas presented in the annual performance report of the Xhariep District Municipality for the year ended 30 June 2016:
 - Key performance area : Local economic development on pages x to x
 - Key performance area : Basic service delivery on pages x to x
 - Key performance area : Public participation and good governance x to x
17. 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 key performance areas. 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 (FMPPPI).
18. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
19. I did not identify any material findings on the usefulness and reliability of the reported performance information for the following key performance areas:
 - Basic service delivery
 - Local economic development
 - Public participation and good governance

Additional matter

20. Although I raised no material findings on the usefulness and reliability of the reported performance information for the selected key performance areas, I draw attention to the following matters:

Unaudited supplementary schedules

21. The supplementary information set out on pages x to x does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report on them.

Compliance with legislation

22. I performed procedures to obtain evidence that the Xhariep District 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

23. 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, expenditures 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

24. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
25. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA.
26. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.
27. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Asset management

28. Capital assets were transferred without the approval of the council as required by section 14(2)(a) of the MFMA.

Conditional grants received

29. The provincial infrastructure grant and Motheo disestablishment grant allocation was not spent in accordance with the applicable grant framework, in contravention of section 17(1) of the DoRA.

Human resource management and compensation

30. Sufficient appropriate audit evidence could not be obtained that the municipality developed and adopted appropriate systems (policies) and procedures to monitor, measure and evaluate performance of staff as required by section 67(d) of the Municipal Systems Act.

Consequence management

31. Unauthorised expenditure by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(a) of the Municipal Finance Management Act.
32. Irregular expenditure by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the Municipal Finance Management Act.
33. Fruitless and wasteful expenditure by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the Municipal Finance Management Act.

Liability management

34. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the MFMA.

Procurement management

35. 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).

Internal control

36. 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 basis for unqualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

37. There has been a slow response from the leadership in implementing and monitoring the audit action plan to address qualification areas and internal control deficiencies identified during the previous audits and as a result it was again a last minute effort to avoid audit report matters.

38. The leadership did not take effective steps to ensure that there were consequences for poor performance and transgressions, as none of the unauthorised, irregular as well as fruitless and wasteful expenditure incurred was investigated during the financial year.
39. The leadership did not ensure that vacancies in key positions were filled to facilitate sound financial management, as the position of chief financial officer and director corporate services remained vacant during the financial year under review.

Financial and performance management

40. The financial statements were not properly reviewed for completeness and accuracy prior to submission for auditing. This resulted in material adjustments being made to the financial statements. It was also identified through the audit that some officials were not sufficiently skilled to ensure that the daily financial transactions were recorded fully and correctly. Internal reviews and reconciliations of all financial records and transactions were noted to be inadequate.
41. The municipality did not always comply with applicable legislation. No formal processes were in place to monitor compliance with legislation, which resulted in the number of reported non-compliance issues. Consequences for poor performance and non-compliance with legislation were lacking.

Governance

42. The accounting officer did not ensure that there is an adequately resourced and functioning internal audit unit throughout the year that identifies internal control deficiencies and recommends corrective action effectively.
43. Audit committee does not adequately promote accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislations, due to limited reports submitted from the internal audit unit.

Auditor - General.

Bloemfontein

30 November 2016



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence