

# **Auditor's report**

Bushbuckridge Local Municipality

30 June 2015

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

## Report on the financial statements

### Introduction

1. I have audited the financial statements of the Bushbuckridge Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, 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 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, 2014 (Act No. 10 of 2014) (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 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 qualified audit opinion.

## Basis for qualified opinion

### Property, plant and equipment

6. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment, as work in progress amounting to R56 686 997 in the prior year could not be substantiated. In addition, I could not determine whether the municipality had the right to use some of the properties included in land and buildings disclosed in note 8 to the financial statements amounting to R140 087 091 and R73 670 799, respectively, as I was not provided with adequate supporting documentation. Consequently, I was unable to confirm whether land and buildings as well as work in progress recognised in the financial statements were accurate and complete.
7. Furthermore, unit costs used to determine the deemed costs for the categories of land, buildings, infrastructure and community assets to the value of R573 420 046 could not be supported and valuation differences were noted on transfers made to infrastructure assets of R135 528 457, which I could not confirm by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary relating to the property, plant and equipment of R2 012 201 651 (2013-14: R1 780 233 005) disclosed in note 8 to the financial statements and the statement of financial position as well as the depreciation expense of R76 511 376 (2013-14: R67 313 119) disclosed in note 25 to the financial statements and the statement of financial performance.

### Payables from exchange transactions

8. During 2013-14, I was unable to obtain sufficient appropriate audit evidence for sundry creditors and to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to sundry creditors stated at R156 390 134 as disclosed in note 10. My audit opinion on the financial statements for the period ended 30 June 2014 was modified accordingly. Furthermore, an adjustment of R22 802 900 was made to the previous year's balance, which could not be substantiated. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

### Property rates

9. The municipality did not recognise revenue from non-exchange transactions for property rates in prior periods, as required by GRAP 23 *Revenue from non-exchange transactions*. Furthermore, sufficient appropriate evidence could not be obtained to support the property values in the new valuation roll. I was unable to confirm these by alternative means. Consequently, I could not determine whether any adjustments were necessary relating to property rates amounting to R160 249 806 (2013-14: R55 801 359) as disclosed in note 21 to the financial statements as well as receivables from non-exchange transactions (property rates) of R302 785 751 (2013-14: R184 695 050) disclosed in note 4 to the financial statements and the statement of financial position.

## Bulk purchases

10. The municipality did not have adequate systems to maintain accurate records of bulk purchases received, as required by GRAP 1 *Presentation of financial statements*. Bulk purchases were overstated, due to water purchases being recognised by the municipality before the risk and rewards were passed from the supplier. I could not quantify the extent of the misstatement, as it was impracticable to do so. Consequently, bulk purchases amounting to R208 977 289 (2013-14: R132 913 774) and trade payables of R259 090 345 (2013-14: R324 043 831) as disclosed in note 29 and note 10 respectively were misstated. Additionally, there was a resultant impact on the surplus for the period and on the accumulated surplus.

## Irregular expenditure

11. I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of irregular expenditure, as adequate internal controls had not been established to identify irregular expenditure. Furthermore, irregular expenditure identified during the current period could not be disclosed by the municipality. I could not determine the extent of the irregular expenditure not disclosed due to weaknesses in the controls of the municipality. Consequently, I could not determine whether irregular expenditure amounting to R774 299 274 (2013-14: R702 717 040) disclosed in note 41 to the financial statements was fairly stated.

## Qualified opinion

12. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Bushbuckridge Local Municipality as at 30 June 2015 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

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

## Restatement of corresponding figures

14. As disclosed in note 36 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of errors discovered during 2014-15 in the financial statements of the municipality at, and for the year ended, 30 June 2014.

## Material losses

15. As disclosed in note 3 to the financial statements, material losses of R103 260 554 (2013-14: R58 272 164) were incurred as a result of water distribution losses, which represented 50% (2013-14: 38%) of the total water purchased.

## Material impairments

16. As disclosed in notes 4 and 6 to the financial statements, the receivables balance was significantly impaired. The impairment of consumer debtors amounted to R342 615 666 (2013-14: R293 063 169), which represented 43% (2013-14: 47%) of the total consumer debtors. The contribution to the provision for debt impairment was R49 589 427 (2013-14: R45 778 080).

## Additional matter

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

## Unaudited disclosure notes

18. 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

19. 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 development objectives 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

20. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development objective presented in the annual performance report of the municipality for the year ended 30 June 2015:
  - Development objective 8: infrastructure development and basic service delivery, on pages ... to ...
21. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
22. 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 development objective. 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).

23. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
24. I did not identify material findings on the usefulness and reliability of the reported performance information for the following development objective:
- Infrastructure development and basic service delivery

### **Additional matter**

25. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected development objective, I draw attention to the following matter:

#### Achievement of planned targets

26. Refer to the annual performance report on pages ... to ... for information on the achievement of the planned targets for the year.

### **Compliance with legislation**

27. 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**

28. 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 assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records provided, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

### **Audit committee**

29. The audit committee was not constituted in the manner required by section 166(4)(a) of the MFMA, as the committee did not consist of at least three persons with appropriate experience, of which the majority was not in the employment of the municipality.

## **Procurement and contract management**

30. Sufficient appropriate audit evidence could not be obtained that all contracts had been awarded in accordance with the legislative requirements and a procurement process that is fair, equitable, transparent and competitive, as the implementing agent did not supply all of the requested documents.
31. Sufficient appropriate audit evidence could not be obtained that quotations had been awarded to bidders based on points given for criteria stipulated in the original invitation for quotations, as required by supply chain management (SCM) regulations 21(b) and 28(1)(a) and the preferential procurement regulations.

## **Expenditure management**

32. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
33. An adequate management, accounting and information system was not in place to account for creditors, as required by section 65(2)(b) of the MFMA.
34. Reasonable steps were not taken to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

## **Revenue management**

35. A credit-control and debt-collection policy was not implemented, as required by section 96(b) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) and section 62(1)(f)(iii) of the MFMA.

## **Asset management**

36. An effective system of internal control for assets (including an adequate asset register) was not in place, as required by section 63(2)(c) of the MFMA.
37. An adequate management, accounting and information system was not in place to account for liabilities, as required by section 63(2)(a) of the MFMA.
38. 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.

## **Consequence management**

39. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

## **Internal control**

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

## **Leadership**

41. Adequate oversight responsibility was not exercised regarding financial and performance reporting, compliance and related internal controls.
42. Effective human resource management was not implemented to ensure that adequate and sufficiently skilled resources were in place and that performance was monitored.
43. Policies and procedures that enable and support the understanding and execution of internal control objectives, processes and responsibilities were not adequately established and communicated to all concerned.
44. The developed action plan to address external and internal audit findings was not adequate, as recurring audit findings were identified.

## **Financial and performance management**

45. Management did not adequately review the annual financial statements.
46. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting.
47. Management did not implement adequate controls over daily and monthly processing and reconciling of transactions.
48. Management did not adequately review and monitor compliance with applicable laws and regulations.

## **Governance**

49. The internal audit unit and the audit committee operated effectively during the current period as per their legislated mandate. Recommendations were made to management on improvements to the internal controls to ensure reliable reporting of both financial and performance information as well as compliance with legislation. However, this did not result in an improvement in the controls due to management not implementing the recommendations, which led to my adverse assessment of the impact of this unit and committee.



## Other reports

### Investigations

50. The Special Investigation Unit performing an investigation governed by the Special Investigating Units and Special Tribunals Act of South Africa, 1996 (Act No. 74 of 1996). At the time of reporting, the investigation had not been completed. The municipality has recruited an independent consulting firm to provide advice on disciplinary procedures to be undertaken relating to cases that have been finalised.
51. An independent consulting firm is performing an investigation at the request of the municipality on the 2013-14 irregular expenditure incurred by the municipality. At the time of reporting, the investigation was underway.

*Auditor - General*

Mbombela

30 November 2015



AUDITOR - GENERAL  
SOUTH AFRICA

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