

Auditor's report

Bushbuckridge Local Municipality

30 June 2016

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 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 Bushbuckridge 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.

Restatement of corresponding figures

8. As disclosed in note 39 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 2015.

Material losses

9. As disclosed in note 45 to the financial statements, material losses of R107 128 597 (2014-15: R103 280 554) were incurred as a result of water distribution losses, which represented 52% (2014-15: 49%) of the total water purchased.

Material impairments

10. As disclosed in notes 6 and 8 to the financial statements, the receivables balance was significantly impaired. The impairment of consumer debtors amounted to R452 868 696 (2014-15: R341 179 013), which represented 45% (2014-15: 43%) of the total consumer debtors. The contribution to the provision for debt impairment was R114 749 428 (2014-15: R49 589 427).

Additional matter

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

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.

Report on other legal and regulatory requirements

13. 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. 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

14. 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 2016:
 - Development objective 6: infrastructure development and basic service delivery on pages 128 to 141
15. 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.
16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following development objective:
 - Infrastructure development and basic service delivery

Additional matters

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

Achievement of planned targets

19. Refer to the annual performance report on pages 128 to 141 for information on the achievement of the planned targets for the year.

Adjustment of material misstatements

20. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information for infrastructure development and basic service delivery. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Compliance with legislation

21. 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

22. 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, revenue and disclosures 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

23. Goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, contrary to supply chain management (SCM) regulation 17(a) and (c).
24. Invitations for competitive bidding were not always advertised for the required minimum period, in accordance with SCM regulation 22(1) and 22(2).
25. The preference point system was not applied in all procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No. 5 of 2000) and SCM regulation 28(1)(a).
26. Construction contracts were awarded to contractors that were not registered with the Construction Industry Development Board (CIDB), contrary to section 18(1) of the CIDB Act of South Africa, 2000 (Act No. 38 of 2000) and CIDB regulations 17 and 25(7A).
27. Thresholds for local content on designated sectors' procurement were not properly applied in accordance with the requirements of preferential procurement regulation 9.
28. Contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding and quotations, in contravention of SCM regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.
29. Goods and services with a transaction value above R200 000 were procured without inviting competitive bids, contrary to SCM regulation 19(a).
30. Bid adjudication was not always done by committees that were composed in accordance with SCM regulation 29(2).

Expenditure management

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

Revenue management

35. A tariff policy was not implemented for the levying of fees for the provision of municipal services, as required by section 62(1)(f)(i) of the MFMA.
36. A credit control and debt collection policy was not implemented, as required by section 62(1)(f)(iii) of the MFMA.
37. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
38. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Asset management

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

Liability management

40. 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.
41. 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

42. 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.

Internal control

43. 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 findings on compliance with legislation included in this report.

Leadership

44. Adequate oversight responsibility was not exercised regarding financial and performance reporting and compliance as well as related internal controls.
45. 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 everyone in the municipality.
46. The developed action plan to address external and internal audit findings was not adequate, as prior year audit findings were again raised.

Financial and performance management

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

Mbombela

30 November 2016



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence