

Report of the auditor-general to the Gauteng Provincial Legislature and the council on the Sedibeng District Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Sedibeng District Municipality set out on pages ... to ..., which comprise statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement, the statement of comparison of budget and actual amounts and appropriation statement 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, the financial statements present fairly, in all material respects, the financial position of the Sedibeng District Municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with South African Standards of General 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, 2017(Act No 3 of 2017 (Dora).

Basis for the opinion

3. 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 auditor's report.
4. 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Material uncertainty relating to going concern

6. I draw attention to the matter below. My opinion is not modified in respect of these matters.
7. As disclosed in note 37 to the financial statements the municipality had accumulated a net loss of R57 415 538 during the year ended 30 June 2018, and as of that date the municipality's current liabilities exceeded its current assets by R168 374 668. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern. The municipality also had an operating loss in the current financial year of R89,350,698 (2017: R32 752 252) which resulted in a decline in the net asset value. The municipality may be unable to realise its assets and discharge its liabilities in the normal course of business. The municipality is busy with a process of aligning the current powers and functions assigned to the district and the local municipalities in order to regain

sustainability within the district. Drastic cost saving measures will be implemented starting with a process of restructuring the organisation based on the assigned powers and functions.

Emphasis of matters

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

Material uncertainties

9. With reference to note 35 to the financial statement, the municipality is the defendant in various lawsuits. The ultimate outcome of the matters cannot be presently determined and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

10. As disclosed in note 36 to the financial statements, the corresponding figures for 30 June 2017 have been restated as a result of errors discovered in the annual financial statements of the municipality for the year ended, 30 June 2018.

Material impairment

11. As disclosed in note 7 to the financial statements, trade receivables were significantly impaired as the recoverability of these amounts is doubtful. The allowance for impairment of consumer receivables amounts to R44 584 162 which represents 87.2% of debtors.

Responsibilities of the accounting officer for the financial statements

12. 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.

13. 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 there is an intention to liquidate the municipality to cease operations, or has no realistic alternative but to do so.

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

14. 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.

15. 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

- 16. 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 programmes presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
- 17. 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 indicator 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.
- 18. 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 clusters presented in the annual performance report of the municipality for the year ended 30 June 2018:

Clusters	Pages in the annual performance report
Cluster 6: Corporate services	x – x
Cluster 7: Community services	x – x
Cluster 8: Transport, infrastructure and environment	x – x

- 19. 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.
- 20. The material findings in respect of the usefulness and reliability of the selected clusters are as follows:

Cluster 6 –Corporate services

Utilities management

- 21. There was no clear and logical link between the indicator and target. The indicator focused on Number of National Code of Good Practice elements implemented at the Fresh Produce Market, while the target aimed to achieve Project Re-Birth Code of Good Practice Pillars implemented by Fresh Produce Market.

Various indicators

22. The planned indicators per SDBIP as reported below were not consistent when compared to indicators as per APR. However, it was changed without approval and included in the annual performance report as follows

Indicator per SDBIP	Indicator per APR
Number of taxi rank maintained	Number of regional taxi ranks functioning and managed
Four reports regarding airport strategy	One airport strategy reviewed and approved by council.
Four reports on installation, maintenance and monitoring Wi-Fi hotspot	25 hotspots installed with Wi-Fi and are monitored and maintained
Number of municipal buildings and sites repaired and maintained	Draft report tabled at mayoral committee
Number of municipal vehicles managed, serviced and repaired	Draft fleet management report tabled at mayoral committee
Number of municipal vehicles managed, serviced and repaired	Draft fleet management report tabled at mayoral committee
No indicator per SDBIP	Number of reports submitted to council

Cluster 7 – Community Services

Number of CCTV maintenance and repairs implemented

23. There was no clear and logical link between the indicator and target. The indicator focused on number of CCTV maintenance and repairs implemented, while the target was aimed to achieve four maintenance and repairs registers. The target is not specific i.e. the nature and required level of performance cannot be clearly identified.

Various indicators

24. I was unable to obtain sufficient appropriate evidence for the reported achievement of target of 500 000 people reached through the door to door programme and 2000 youth accessed through the youth advisory centre services. This was due to lack of proper performance management systems and processes and documented systems descriptions that predetermined how the achievement would be measured, monitored and reported as required by Framework for Managing Programme Performance Information. I was unable to confirm that the reported achievement of these indicators were reliable by alternative means. Consequently, I am unable to determine whether any adjustment was required to the reported achievement of 500 000 and 2006 respectively.

Cluster 8 – Transport, infrastructure and environment

Various indicators

25. There was no clear and logical link between the indicator and target. The planned targets for these indicators were not specific in clearly identifying the nature and required level of performance and measurable and did not specify the period deadline for delivery.

Indicator	Target
Number of progress reports on licences issued	Monitor progress on implementation of licensing functions and report
Number of Sedibeng regional sewer projects monitored	Monitor progress on Sedibeng regional sewer upgrade and report
Number of infrastructure projects in the region monitored	Monitor progress on implementation of regional Infrastructure projects and report
Number of rural road asset management system developed	Monitor progress on development of rural road asset management system and report
Number of awareness programmes and engagements with Passenger Rail of South Africa (Prasa) conducted	Conduct awareness programmes and engagements with Prasa
Number of Vaal logistics hubs established	Number of Vaal Logistics Hubs established

Other matters

26. I draw attention to the matters below.

Achievement of planned targets

27. Refer to the annual performance report on pages' x to x; x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 21; 23; 25 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 corporate services, community Services, transport infrastructure and environment. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information.

Report on the 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:

Annual financial statements

31. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, liabilities, expenditure 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

32. Reasonable steps were not taken to prevent irregular expenditure amounting to R9 411 475 as disclosed in note 41 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with the requirements of section 36(1) of Municipal Supply Chain Management Regulations (SCM regulations).
33. Expenditure was incurred in excess of the approved budget, in contravention of section 87(8) of the MFMA.
34. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R5 927 088 as disclosed in note 39 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. Most of the unauthorised expenditure was caused by personnel expenditure.

Revenue management

35. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Consequence management

36. 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.
37. Irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Strategic planning and performance management

38. The IDP did not reflect the key performance indicators and targets as required by sections 26 (a), (c), (i) and (h) of the Municipal Systems Act, 2000 (Act No.32 of 2000 (MSA) and municipal planning and performance management regulation 2(1)(e) and 2(3)(a).
39. The performance management system and related controls were inadequate as it did not describe how the performance planning monitoring, measurement, review, reporting and improvement processes should be managed, as required by municipal planning and performance management regulation 7(1).

Procurement and contract management

40. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).

41. Some of the competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2). Similar non-compliance was also reported in the prior year.

Other information

42. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in the auditor's report.
43. 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.
44. 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 programmes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
45. If, based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

46. 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 on it. The matters reported below are limited to the significant internal control deficiencies that resulted in findings on the performance report and the finding on compliance with legislation included in this report.
47. The accounting officer did not adequately exercise oversight responsibility regarding financial and performance reporting and compliance with legislation. The municipality did not have sufficient monitoring controls to ensure that financial and performance reports submitted for audit were accurate and complete.
48. Senior management did not implement adequate control disciplines over financial and performance reporting and compliance with key legislation. There was a lack of a proper records management system that could support the information reported in the financial statements and performance report with a result that material errors and omissions were identified during the audit process.

49. Internal audit processes did not always identify internal control deficiencies and recommend appropriate corrective action effectively. This resulted in significant and recurring control deficiencies relating to the preparation of financial and performance reports and compliance with legislation.

Johannesburg

30 November 2018



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 programmes 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 this 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 Sedibeng District Municipality 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 this 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.