



## Reputation promise

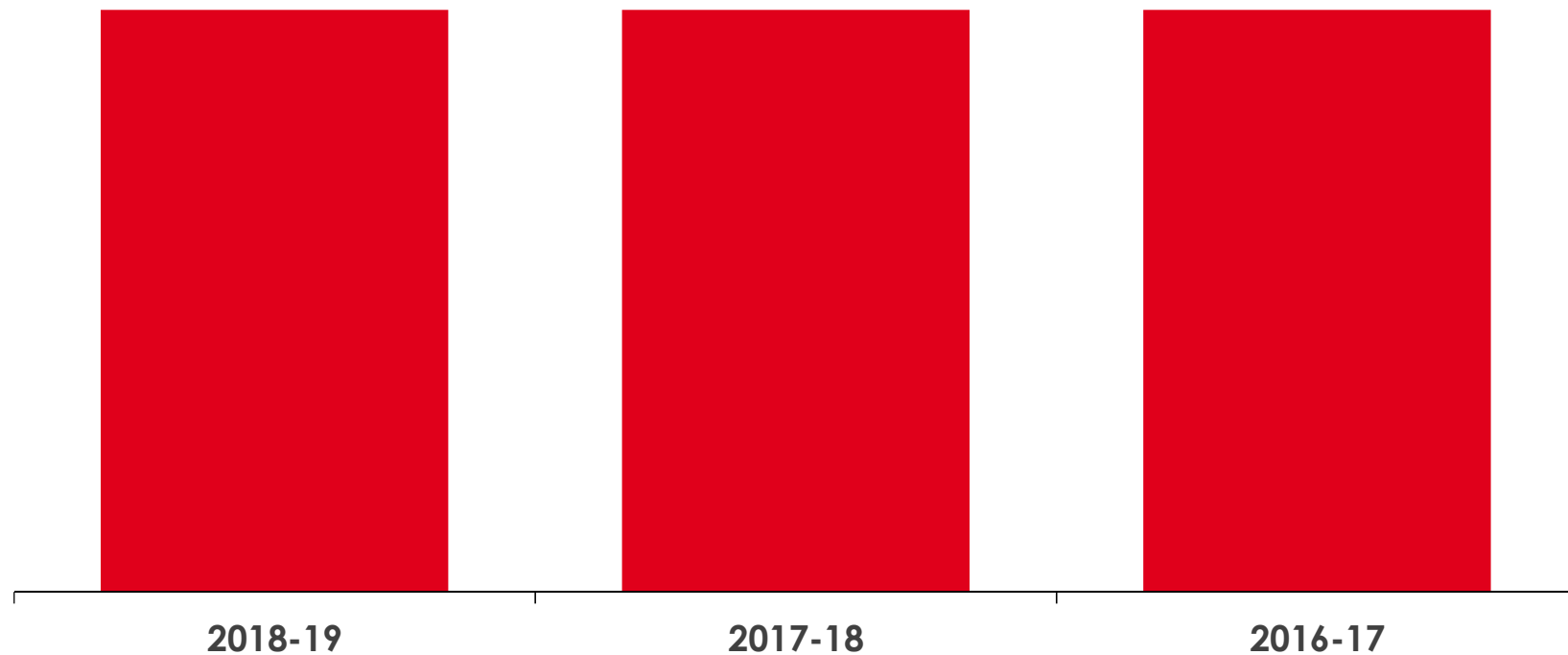
The Auditor-General of South Africa (AGSA) has a constitutional mandate and, as the supreme audit institution (SAI) of South Africa, exists to strengthen our country's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.



# The 2018-19 audit outcomes



## Audit outcomes over three years



The audit outcomes of the municipality regressed over the past three years. Financial statement preparation remains a concern. The following material misstatements identified by the auditors in the submitted financial statements were corrected and the supporting records were provided subsequently:

- non-current assets
- current assets
- current liabilities
- revenue
- operational expenditure
- disclosure items



Unqualified  
with no findings



Unqualified  
with findings



Qualified  
with findings



Adverse  
with findings



Disclaimed  
with findings



Outstanding  
audits



# Qualification areas

## **Property, plant and equipment:**

- Sufficient appropriate audit evidence could not be obtained for infrastructure and work in progress assets due to the non-submission of payment certificates and unexplained differences between the payment documentation and recorded project values.

**Payables from exchange transactions** – Sufficient appropriate audit evidence could not be obtained for the current and previous year due to the status of record keeping.

**Commitments** – Sufficient appropriate audit evidence could not be obtained for the current and previous year due to the status of record keeping.

**Irregular expenditure** – sufficient and appropriate audit evidence could not be obtained due to the as the difference between the disclosed opening balance and supporting schedules could not be substantiated.

**Government grants and subsidies** – sufficient appropriate audit evidence could not be obtained for all the allocated revenue that had to be recognised relating to the grant from the Department of Water and Forestry.

**Fruitless and wasteful expenditure** – the difference between the disclosed opening balance and supporting schedules could not be substantiated.

**Depreciation, impairment and amortisation** – depreciation was calculated based on incorrect useful lives.

**Service charges** – sufficient appropriate audit evidence could not be obtained for revenue from service charges for the current and previous year due the lack of support for meter readings.

**Receivables from non-exchange transactions** – sufficient appropriate audit evidence was not available for receivables from non-exchange transactions for the current and previous year due to the status of record keeping.



## Qualification areas *(continued)*

**Contracted services** – sufficient appropriate audit evidence could not be obtained for the current and previous year due to the status of record keeping.

**General expenses** – sufficient appropriate audit evidence could not be obtained for the current and previous year due to the status of record keeping.

**Bulk purchases** – sufficient appropriate audit evidence could not be obtained for the current and previous year due to the status of record keeping.

**Unspent conditional grants and receipts** – sufficient appropriate audit evidence could not be obtained for unspent conditional grants and receipts due to the status of record keeping.

**Public contributions and donations** – sufficient appropriate audit evidence could not be obtained for the current and previous year due to the status of record keeping.





## Performance reporting

The usefulness and reliability of the reported performance information for the following programmes as presented in the annual performance report were evaluated:

- KPA1 – Municipal basic service and infrastructure development

Material findings were raised in respect of the usefulness and reliability on the selected KPA as follows:

- Sufficient appropriate audit evidence could not be obtained for certain of the reported achievements of the indicators.
- A comparison between the performance of the year under review and previous year was not included in the annual performance report for all indicators relating to the selected KPA.
- The measures taken to improve performance against targets were not reported in the annual performance report for the certain indicators.



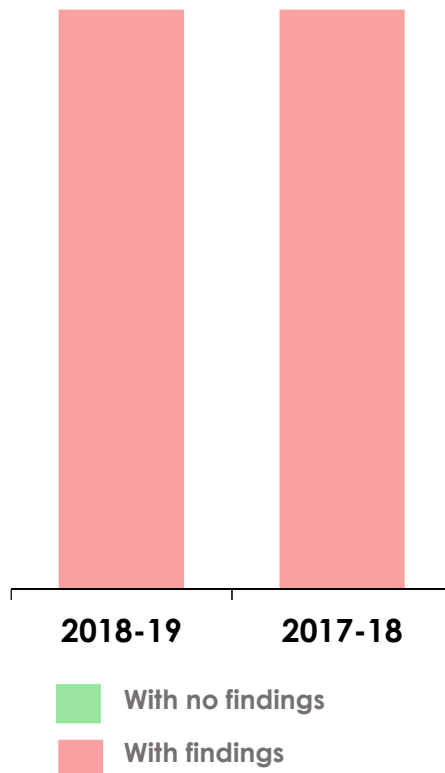




# Disregard for compliance with legislation

## Non-compliance areas

### Findings on compliance with key legislation



#### Revenue management:

- An effective system of internal control for debtors and revenue was not in place.

#### Strategic planning and performance management:

- The integrated development plan (IDP) was not drafted considering the integrated development process and proposals submitted to it by the district municipality.
- The service delivery and budget implementation plan (SDBIP) for the year under review was not approved by the mayor.
- The SDBIP for the year under review did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote.
- Amendments to the IDP were made without making the proposed amendments available for public comment.
- Amendments to the IDP were made without consultation with the district municipality.
- Amendments to the IDP were not adopted by council.
- The SDBIP was revised during the year without the approval of the council following approval of an adjustments budget.

#### Quality of annual financial statements:

- The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of the MFMA.
- The financial statements were not submitted for auditing within two months after the end of the financial year.
- The oversight report adopted by the council on the 2017-18 annual report was not made public.

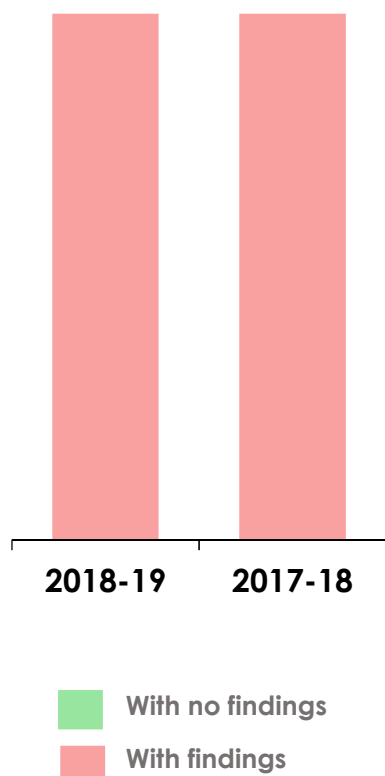






## Disregard for compliance with legislation (continued)

### Findings on compliance with key legislation



### Non-compliance areas

#### Procurement and contract management:

- Sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded in accordance with the legislative requirements as procurement documentation could not be submitted due to the status of record keeping. Similar limitations were also reported in the prior year.
- Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value below R200 000 were procured using price quotations.
- Sufficient appropriate audit evidence could not be obtained that bid specifications were unbiased and allowed all potential suppliers to offer their goods or services.
- Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state.
- Sufficient appropriate audit evidence could not be obtained that quotations were only accepted from bidders whose tax matters had been declared by SARS to be in order.
- Sufficient appropriate audit evidence could not be obtained that bid specifications were unbiased and allowed all potential suppliers to offer their goods or services.
- Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days.
- Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding and quotations.
- Sufficient appropriate audit evidence could not be obtained that bid adjudication committees were always composed in accordance with SCM regulations.
- Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000.
- Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders that scored the highest points in the evaluation process.
- Sufficient appropriate audit evidence could not be obtained that all extensions or modifications to contracts were approved by a properly delegated official.
- The performance of contractors or providers was not monitored monthly.
- The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management.

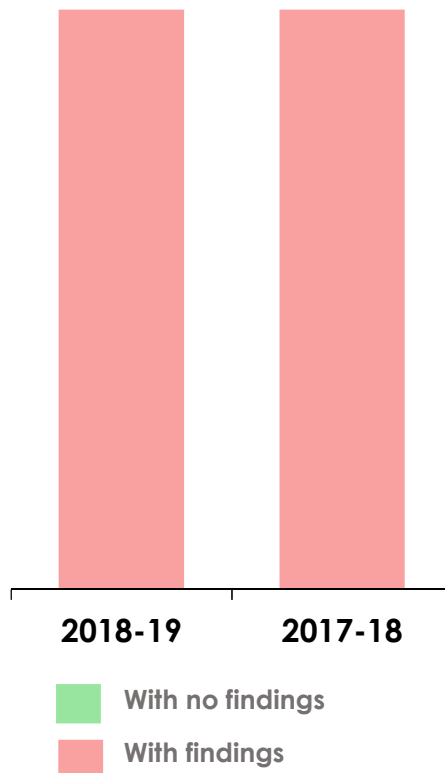




## Disregard for compliance with legislation (continued)

### Non-compliance areas

#### Findings on compliance with key legislation



#### Asset management:

- An adequate management, accounting and information system that accounts for assets was not in place.
- An effective system of internal control for assets (including an asset register) was not in place.

#### Expenditure management:

- Money owed by the municipality was not always paid within 30 days.
- Payments were made from the municipality's bank account without the approval of a properly authorised official.
- Reasonable steps were not taken to prevent unauthorised, irregular as well as fruitless and wasteful expenditure.
- Unforeseen and unavoidable expenditure incurred by the municipality was not approved by the mayor.

#### Conditional grants:

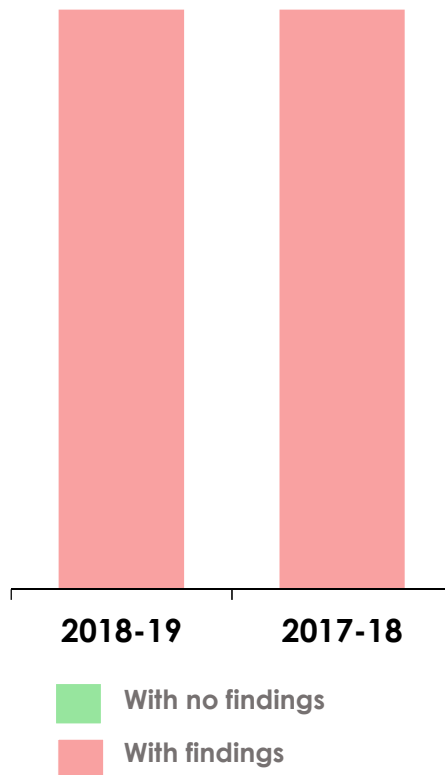
- Sufficient appropriate audit evidence could not be obtained that the municipal infrastructure grant, the regional bulk infrastructure grant, the water services infrastructure grant as well as the integrated national electrification programme grant were spent for its intended purposes.
- Performance in respect of programmes funded by the grants mentioned above were not evaluated within two months after the end of the financial year.





## Disregard for compliance with legislation (continued)

### Findings on compliance with key legislation



### Non-compliance areas

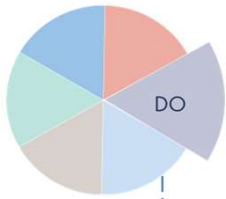
#### Consequence management:

- Unauthorised, irregular as well as fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure.
- Allegations of financial misconduct laid against officials of the municipality were not investigated.
- Allegations of financial misconduct laid against officials of the municipality were not investigated by the disciplinary board, relevant treasury or an independent investigator or team of investigators appointed by council.

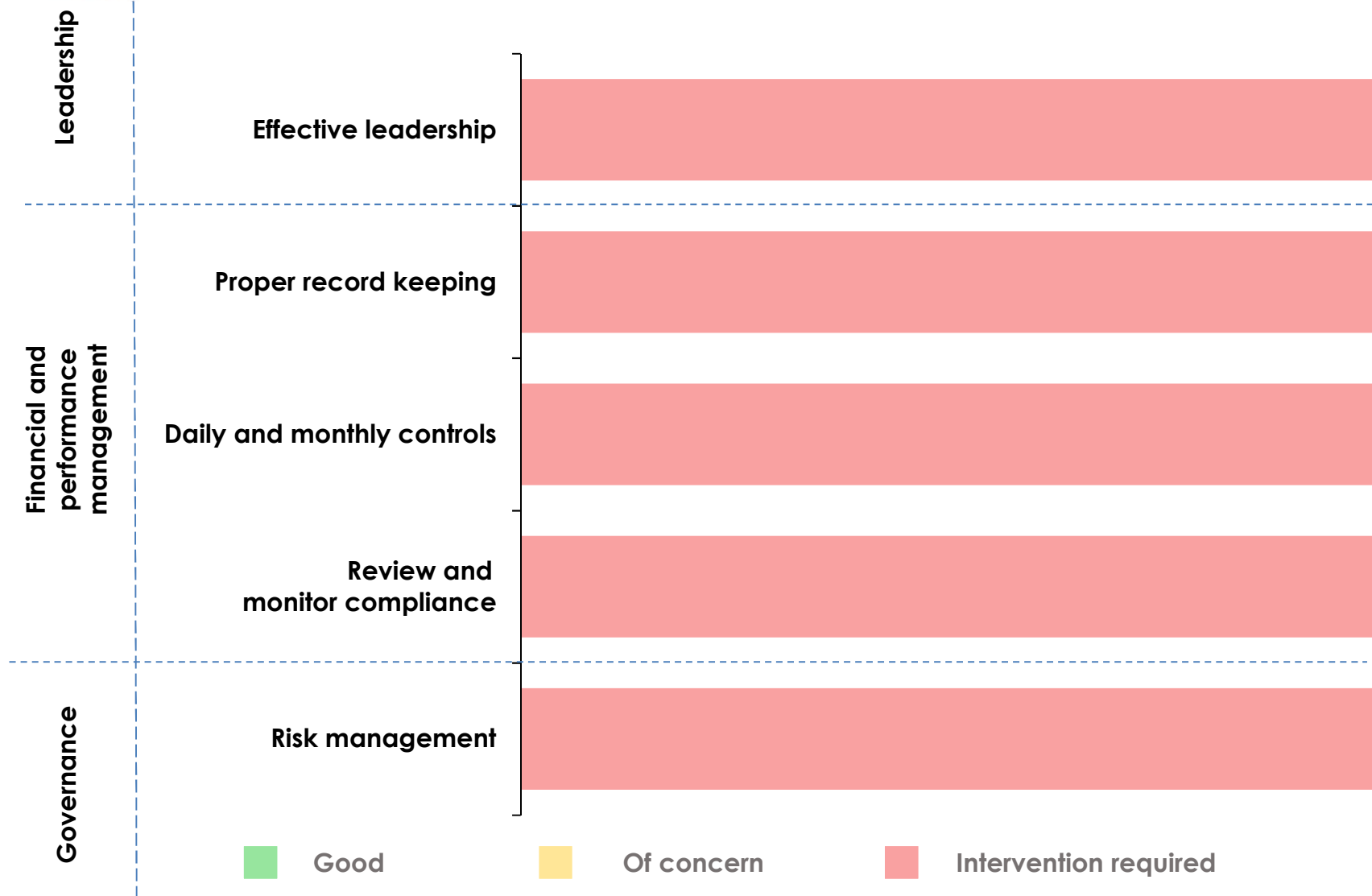
#### Human resource management:

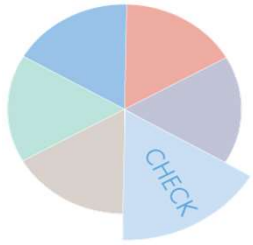
- Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted.



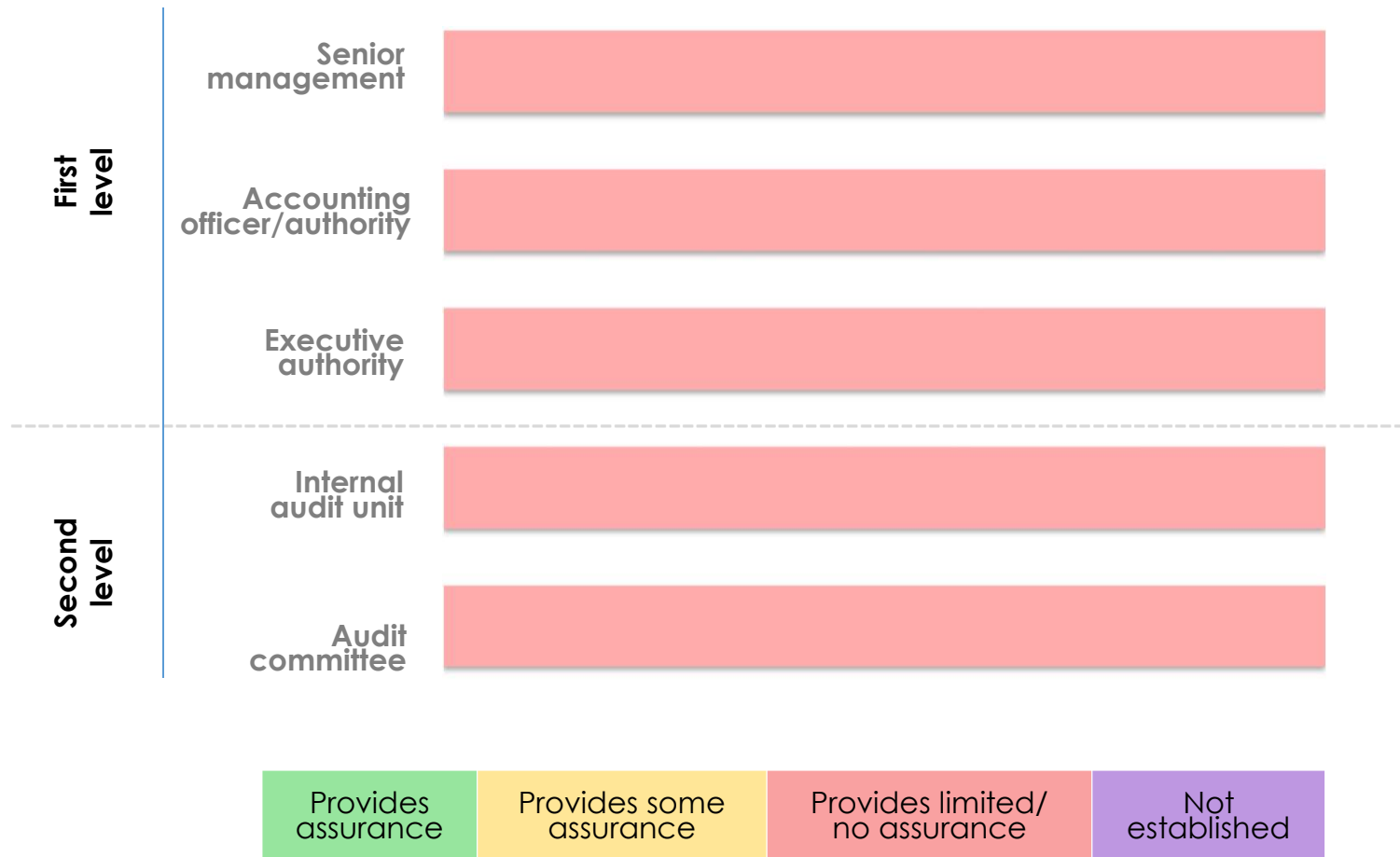


## Status of internal control





## Assurance provided



# Financial health and financial management



# Financial health

- The municipality's current liabilities exceeded its current assets by R119 610 414 (2018: R92 782 088).
- The municipality owed Eskom R58 671 989 (2018: R37 316 813) and the Department of Water Affairs R33 279 375 (2018: R25 368 532) as at 30 June 2019, which were long overdue.
- The municipality is the defendant in various claims against the municipality. The municipality is opposing these claims. The ultimate outcome of these matters could not be determined and no provision for any liabilities that may result were made in the financial statements.
- Material water distribution losses of R4 436 952 (2018: R21 319 020) and electricity distribution losses of R15 748 035 (2018: R14 311 986) were incurred by the municipality mainly due to technical and non-technical losses, leakages, burst water pipes, line losses, tampering and theft.



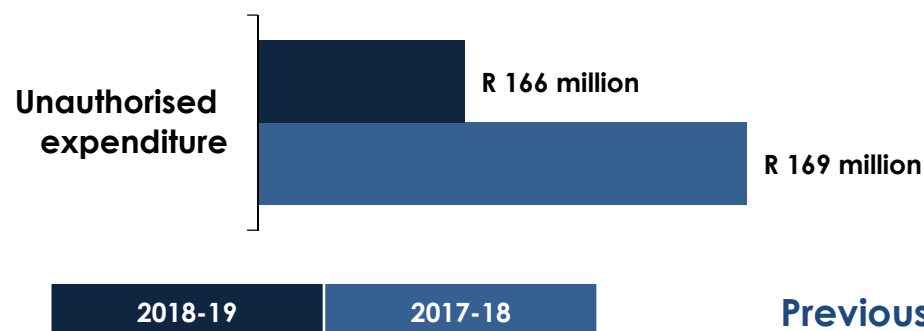


# Unauthorised expenditure decreased over two years

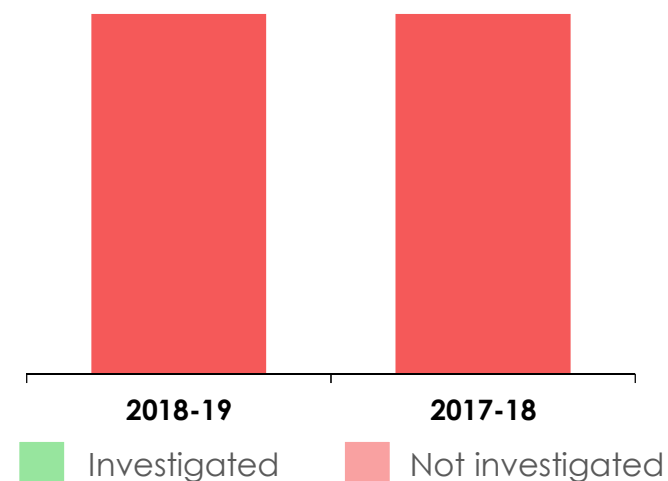
## Definition

*Expenditure not in accordance with the budget vote / overspending of budget or programme*

Unauthorised expenditure incurred by entities in portfolio



## Previous year unauthorised expenditure reported for investigation



## Nature of unauthorised expenditure

The municipality incurred unauthorised expenditure due to overspending of the budget.

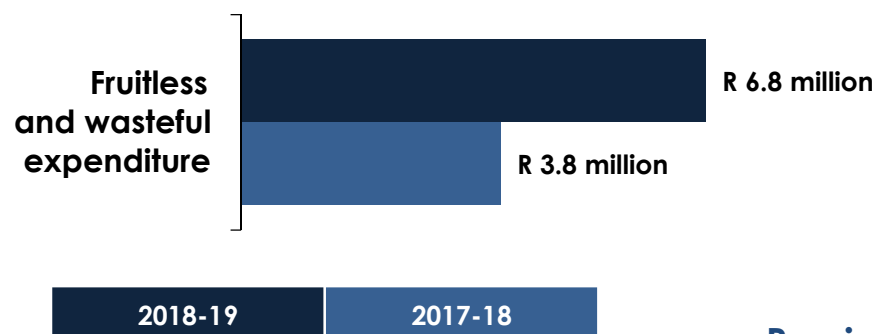


# Fruitless and wasteful expenditure increased over two years

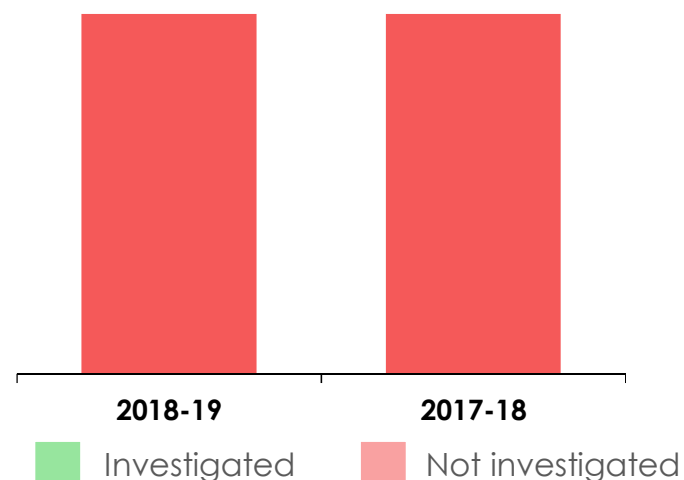
## Definition

*Expenditure incurred in vain and could have been avoided if reasonable steps had been taken – no value for money*

## Fruitless and wasteful expenditure incurred by entities in portfolio



## Previous year fruitless and wasteful expenditure reported for investigation



## Nature of fruitless and wasteful expenditure

Fruitless and wasteful expenditure relates to interest and penalties.

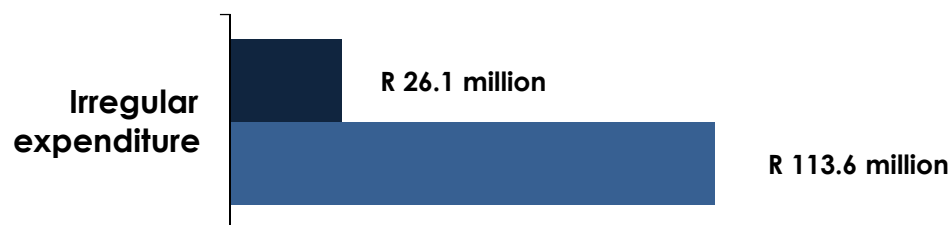


# Irregular expenditure decreased over two years

## Definition

Expenditure incurred in contravention of key legislation; goods delivered but prescribed processes not followed

## Irregular expenditure incurred by entities in portfolio



2018-19

2017-18

## Nature of irregular expenditure

The municipality incurred irregular expenditure of R26.1 million, which relates procurement without competitive bidding or quotation process.

## Previous year irregular expenditure reported for investigation



# Root causes

