

Report of the auditor-general to the Free State Legislature and the council on the Setsoto Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Setsoto Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2017, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts 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 Setsoto Local Municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended 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, 2016 (Act No. 3 of 2016) (DoRA).

Basis for 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 my 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 related to going concern

6. I draw attention to the matter below. My opinion is not modified in respect of this matter:
7. Note 53 to the financial statements indicates that the municipality incurred a net deficit of R124 580 991. The municipality owed Eskom R28 919 532 as at 30 June 2017 of which R13 088 931 was overdue. These conditions, along with other matters set forth in note 53, indicate the existence of a material uncertainty that may cast significant doubt

on the municipality's ability to continue as a going concern and to achieve its service delivery objectives as outlined in the annual performance plan.

Emphasis of matters

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

Restatement of corresponding figures

9. As disclosed in note 54 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2017.

Material impairments

10. As disclosed in note 5 to the financial statements, consumer debtors were impaired by R165 119 394 (2016: R148 406 865), which the municipality deemed would not be recoverable from debtors.

Material losses

11. As disclosed in note 5 to the financial statements, material losses of R53 148 882 (2016: R63 924 640) were incurred as a result of a write-off of irrecoverable debtors.
12. As disclosed in note 48 to the financial statements, material electricity losses of R11 819 161 (2016: R7 014 382) were incurred, which represents 15% (2016: 11%) of the total electricity purchased mainly due to unmetered electricity distributions.

Unauthorised expenditure

13. As disclosed in note 44 to the financial statements, unauthorised expenditure of R245 531 480 was incurred during the year. This was due to overspending on the budget as a result of non-cash items, mainly depreciation charges on property, plant and equipment.
14. As disclosed in note 44 to the financial statements, unauthorised expenditure of R237 530 497, was incurred in the previous year. Writing off or the recovery of this amount has not yet been approved by the council.

Irregular expenditure

15. As disclosed in note 46 to the financial statements, irregular expenditure of R32 972 664 (2016: R2 188 129) was incurred during the year, mainly due to the correct supply chain management (SCM) processes that had not been followed. In addition the full extent of irregular expenditure is still in the process of being determined.

Other matters

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

Unaudited disclosure notes

17. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Unaudited supplementary information

18. The appropriation statement set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited this statement and, accordingly, I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

19. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and 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.
20. 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 the intention is to liquidate the municipality or cease operations, or there is no realistic alternative but to do so.

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

21. 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.
22. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

23. 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 the selected key performance areas (KPAs) presented in the annual performance report. I performed procedures to identify findings, but not to gather evidence to express assurance.
24. 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 indicators 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.
25. 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 KPA presented in the annual performance report of the municipality for the year ended 30 June 2017:

KPA	Pages in the annual performance report
Infrastructure and service delivery	x – x

26. 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.
27. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following KPA:
- Infrastructure and service delivery.

Other matters

28. I draw attention to the matters below.

Achievement of planned targets

29. 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 and explanations provided for the underachievement of a significant number of targets.

Adjustment of material misstatements

30. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the KPA for infrastructure and 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

Report on audit of compliance with legislation

Introduction and scope

31. 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.
32. The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

Budgets

33. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R245 531 480, as disclosed in note 44 to the financial statements, as required by section 62(1)(d) of the MFMA.

Annual financial statements

34. 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, non-current liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

35. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

36. Effective steps were not taken to prevent irregular expenditure amounting to R32 972 664, as disclosed in note 46 to the financial statements, as required by section 62(1)(d) of the MFMA.
37. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R1 188 124, as disclosed in note 45 to the financial statements, as required by section 62(1)(d) of the MFMA.

Procurement and contract management

38. Goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(a) and (c).
39. Some of the competitive bids were adjudicated by a bid adjudication committee that did not meet in all aspects the composition requirements of its members as required by SCM regulation 29(2).

Other information

40. The Setsoto Local Municipality's 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 KPAs presented in the annual performance report that have been specifically reported on in the auditor's report.
41. 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.
42. 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 KPA presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

43. 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 thereon. 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.

44. Management did not in all instances exercise oversight, to ensure that accurate and reliable information is submitted timeously, as there were material misstatements in the financial statements and annual performance report that required adjustments during the audit.
45. The formal processes to effectively monitor compliance with key legislation were inadequate, which resulted in non-compliance with legislation in certain cases.

Auditor-General

Bloemfontein

30 November 2017



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 key performance areas 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 the 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 Setsoto Local Municipality’s 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 the auditor’s report. However, future events or conditions may cause a municipality to cease operating 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.