

# Report of the auditor-general to the Northern Cape Provincial Legislature and the council on Ubuntu Local Municipality

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the Ubuntu Local Municipality set out on pages X to X, which comprise the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information 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, except for the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Ubuntu Local Municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (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, 2017 (Act No. 3 of 2017) (DoRA).

### Basis for qualified opinion

#### Receivables from non-exchange transactions

3. I was unable to obtain sufficient appropriate audit evidence that traffic fines for the current year and the related provision for impairment of receivables from non-exchange transactions had been properly accounted for due to the status of the accounting records. I was unable to confirm the traffic fines by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to traffic fines R155 867 402 (2017: R127 696 996) and the related provision for impairment of receivables from non-exchange transactions stated at R147 506 919 (2017: R122 968 901) respectively, disclosed under receivables from non-exchange transactions in note 5 to the financial statements.

#### Revenue from non-exchange transactions

4. I was unable to obtain sufficient appropriate audit evidence that speed fines had been properly accounted for due to the status of the accounting records. I was unable to confirm the speed fines, by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to speed fines stated at R32 520 300 (2017: R30 497 935) disclosed under revenue from non-exchange transactions in note 26 to the financial statements.

## Revenue from exchange transactions

5. The municipality did not recognise all service charges accurately and did not charge interest on long overdue accounts in accordance with GRAP 9, *Revenue from exchange transactions* and GRAP 104, *Financial instruments* respectively. As the municipality did not maintain adequate and complete records of services rendered, interest charged and the related impairment, I was unable to determine the full extent of the understatement of service charges and trading interest for the current and previous year as it was impracticable to do so. Consequently, receivables from exchange transactions and VAT receivable were understated. Additionally, there was an impact on the surplus for the period and on the accumulated surplus.
6. In addition, I was unable to obtain sufficient appropriate audit evidence that all indigent subsidies stated at R2 019 837 in note 20 to the financial statements had been properly accounted for as the municipality did not have adequate systems and I could not confirm this by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to indigent subsidies stated at R2 019 837 under service charges in note 20 to the financial statements.

## Payables from exchange transactions

7. During 2017, I was unable to obtain sufficient appropriate audit evidence that payments received in advance (debtors with credit balances) had been properly accounted for, due to the status of the accounting records. I was unable to confirm the payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to payables in advance disclosed at R3 268 277 in note 14 to the financial statements.

## Irregular expenditure

8. In terms of section 125(2)(d) of the MFMA, the municipality is required to disclose particulars of irregular expenditure in the notes to the financial statements. The municipality incurred expenditure in contravention of the supply chain management (SCM) requirements. This was not included in the irregular expenditure disclosed in note 47 to the financial statements. I was unable to determine the full extent of the understatement for the current as well as previous years as it was impracticable to do so.

## Context for the opinion

9. 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.
10. 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.
11. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.



## **Material uncertainty relating to going concern**

12. I draw attention to the matter below. My opinion is not modified in respect of this matter.
13. I draw attention to note 49 in the Annual financial statements, which indicates that the municipality incurred a net deficit of R 26 125 368 during the year ended 30 June 2018 and as of that date the municipalities current liabilities exceeded its current assets by R 70 129 111. As stated in note 49, these events or conditions, along with other matter as set forth in note 49, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

## **Emphasis of matters**

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

## **Restatement of corresponding figures**

15. As disclosed in note 40 to the financial statements, the corresponding figures for 30 June 2017 have been restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2018.

## **Material losses - electricity**

16. As disclosed in note 48 to the annual financial statements, material electricity loses of R5 456 688 (2017: R3 487 235) were incurred which represents 43% (2017: 27%) of the total electricity purchased.

## **Other matters**

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

## **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 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 thereon.

## **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 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 Ubuntu Local 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 appropriate governance structure either intends to liquidate the municipality or to cease operations, or has 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 this auditor's report.

### **Performance information reporting**

23. I was unable to audit the usefulness and reliability of the performance information, as the annual performance report of the municipality was not prepared as required by section 46 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (Municipal Systems Act) and section 121(3)(c) of the MFMA.

### **Report on the audit of compliance with legislation**

#### **Introduction and scope**

24. 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.
25. The material findings on compliance with specific matters in key legislations are as follows:

#### **Strategic, planning and performance management**

26. No KPIs were set in respect of the provision of basic water, sanitation, electricity and solid waste removal services, as required by section 43(2) of the MSA and municipal planning and performance management reg 10(a).
27. A performance management system was not established, as required by section 38(a) of the MSA.

#### **Annual financial statements and annual reports**

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



29. The annual financial statements were not submitted to the Auditor-General, for auditing, within two months after the end of the financial year, as required by section 126(1)(a) the MFMA.
30. The 2016/17 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.

#### **Procurement and contract management**

31. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.
32. Quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.

#### **Asset management**

33. Investment policy that adopted by council was not in place, as required by section 13(2) of the MFMA and municipal investment regulation 3(1)(a).
34. Capital assets were permanently disposed that were needed to provide the minimum level of basic municipal service, in contravention of section 14(1) of the MFMA.
35. Capital assets were permanently disposed without the approval of the council or the accounting officer, as required by section 14(2)(a) 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 and fruitless and wasteful 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.

#### **Utilisation of conditional grants**

38. Performance in respect of programmes funded by the Municipal Infrastructure Grant and Water Services Infrastructure Grant was not evaluated, as required by section 12(5) of the DoRA.

#### **Revenue Management**

39. An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA.
40. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.
41. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA

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

### **Expenditure management**

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

44. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with supply chain management regulations.

45. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R6 328 588 as disclosed in note 46 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by the municipality not being able to pay their creditors within 30 days and thereby incurring interest on outstanding debt.

46. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R 63 712 919, as disclosed in note 45 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was due to the overspending of the budget.

### **Human resource management**

47. Financial interests were not disclosed by the municipal manager within 60 days from date of appointment, as required by regulation 36(1)(a) on appointment and conditions of employment of senior managers.

48. Job descriptions were not established for all posts in which appointments were made, as required by section 66(1)(b) of the MSA.

49. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA.

50. The municipal manager and senior managers did not sign performance agreements within the prescribed period, as required by section 57(2)(a) of the MSA.

### **Other information**

51. 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 and the auditor's report.

52. My opinion on the financial statements 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.

53. 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, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.



54. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

### Internal control deficiencies

55. 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 the basis for the qualified opinion and the findings on compliance with legislation included in this report.
56. Leadership did not take appropriate action with regard to a lack of controls in the finance and supply chain management unit, resulting in the re-occurrence of the material misstatements and compliance issues.
57. The municipality did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored. Vacancies was also experience on key positions which impacted negatively on monitoring of controls. The municipality appointed consultants to assist in the compilation of the annual financial statements, due to these vacancies there was a lack in the monitoring of the work performed, which resulted in an over reliance on the consultant's work.
58. Effective financial systems of internal controls and their management had not been implemented to ensure accurate financial statements. The preparation and review of the financial statements was not adequately planned, to ensure a comprehensive review takes place.
59. The municipality did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
60. The financial statements were submitted late during the prior year which resulted in limited time for management to develop, implement and monitor the action plan. This resulted in some of the prior findings not been addressed in full.
61. The municipality did not implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.

## Other reports

62. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
63. The Directorate for Priority Crime Investigation (Hawks) are investigating allegations of irregularities dating between June 2010 and July 2015. These proceedings were in progress at the date of this report.

*Auditor General*

Kimberley

30 November 2018



AUDITOR - GENERAL  
SOUTH AFRICA

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## **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 objectives 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 Ubuntu 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 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.