

ANNEXURE “C”

AUDITOR-GENERAL

SDM 2015/16

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

Report on the financial statements

Introduction

1. I have audited the financial statements of the Sedibeng District Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, the cash flow statement, appropriation statement and the statement of comparison of budget and actual amounts 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), the requirements of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 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 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 Sedibeng District 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 matter

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

Financial sustainability

8. Note 34 to the financial statements indicates that the municipality incurred an operating deficit of R45 226 767 (2014 -15: R5 471 452) during the year ended 30 June 2016 and, as of that date, the municipality's current liabilities exceeded its current assets by R96 600 491 (2014 -15: R64 895 844). 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.

Additional matter

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

Unaudited disclosure notes

10. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of any 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 on it.

Report on other legal and regulatory requirements

11. In accordance with the Public Audit Act, 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 of selected objective presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was 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

12. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2016:
 - Objective 1: Office of the speaker : ensure high level of corporate governance, on pages x to x

- Objective 2: Corporate services: world class ICT infrastructure in support of a smart Sedibeng, on pages c to x
 - Objective 3: Corporate services: develop and maintain high quality municipal facilities, on pages x to x
 - Objective 4: Community services: provide integrated support in ensuring that communities are safe and secure, on pages x to x
 - Objective 5: Community services: promote and develop arts and culture, on pages x to x
 - Objective 6: Facilitate and coordinate internal and external HIV/Aids and TB mainstreaming, on pages x to x
 - Objective 7: Strategic planning and economic development: promote residential development and urban renewal, on pages x to x
 - Objective 8: Strategic planning and economic development: promote and develop agricultural sector, on pages x to x
 - Objective 9: Strategic planning and economic development: promote and develop the tourism sector, on pages x to x
 - Objective 10: Transport, infrastructure and environment: plan for effective, efficient and sustainable infrastructure for water and sanitation and provision of electricity, on pages x to x
 - Objective 11: Transport, infrastructure and environment: plan and develop accessible safe and affordable public transport systems and facilities, on pages x to x
 - Objective 12: Transport, infrastructure: render an efficient effective and corruption free vehicle registration and licensing service, on pages x to x.
13. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned objectives. 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* (FMPPI).
14. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
15. The material findings in respect of the selected objectives are as follows:

Objective 1: Office of the speaker: ensure high level of corporate governance

Usefulness of reported performance information

16. The FMPPI requires that performance targets should be specific in clearly identifying the nature and required level of performance. Important targets were not specific.

Objective 2: Corporate services: world class ICT infrastructure in support of a smart Sedibeng

Usefulness of reported performance information

17. The FMPPI requires that performance targets should be specific in clearly identifying the nature and required level of performance and measurable. Important targets were not specific and measurable.
18. The FMPPI requires that performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use. Important indicators were not well defined.
19. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. Important indicators were not verifiable.

Reliability of reported performance information

20. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable corroborating evidence could not be provided for the reported achievements against planned targets of important indicators.

Objective 3: Corporate services: develop and maintain high quality municipal facilities

Usefulness of reported performance information

21. The FMPPI requires that performance targets should be specific in clearly identifying the nature and required level of performance and measurable. Important targets were not specific and measurable.
22. The FMPPI requires that performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use. Important indicators were not well defined.
23. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. Important indicators were not verifiable.

Reliability of reported performance information

24. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable corroborating evidence could not be provided for the reported achievements against planned targets of important indicators.
25. I did not identify any material findings on the usefulness and reliability of the reported performance information for the following objectives:
 - Objective 4: Community services: provide integrated support in ensuring that

- communities are safe and secure, on pages x to x
- Objective 5: Community services: promote and develop arts and culture, on pages x to x
 - Objective 6: Facilitate and coordinate internal and external HIV/Aids and TB mainstreaming, on pages x to x
 - Objective 7: Strategic planning and economic development: promote residential development and urban renewal, on pages x to x
 - Objective 8: Strategic planning and economic development: promote and develop agricultural sector, on pages x to x
 - Objective 9: Strategic planning and economic development: promote and develop the tourism sector, on pages x to x
 - Objective 10: Transport, infrastructure and environment: plan for effective, efficient and sustainable infrastructure for water and sanitation and provision of electricity, on pages x to x
 - Objective 11: Transport, infrastructure and environment: plan and develop accessible safe and affordable public transport systems and facilities, on pages x to x
 - Objective 12: Transport, infrastructure: render an efficient effective and corruption free vehicle registration and licensing service, on pages x to x.

Additional matters

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

Achievement of planned targets

27. Refer to the annual performance report on pages x to x and x to x for information on the achievement of the 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 16-24 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:

- Objective 1: Office of the speaker : ensure high level of corporate governance, on pages x to x
- Objective 2: Corporate services: world class ICT infrastructure in support of a smart Sedibeng, on pages c to x

- Objective 3: Corporate services: develop and maintain high quality municipal facilities, on pages x to x
- Objective 4: Community services: provide integrated support in ensuring that communities are safe and secure, on pages x to x
- Objective 5: Community services: promote and develop arts and culture, on pages x to x
- Objective 6: Facilitate and coordinate internal and external HIV/Aids and TB mainstreaming, on pages x to x
- Objective 8: Strategic planning and economic development: promote and develop agricultural sector, on pages x to x
- Objective 9: Strategic planning and economic development: promote and develop the tourism sector, on pages x to x
- Objective 10: Transport, infrastructure and environment: plan for effective, efficient and sustainable infrastructure for water and sanitation and provision of electricity, on pages x to x
- Objective 11: Transport, infrastructure and environment: plan and develop accessible safe and affordable public transport systems and facilities, on pages x to x
- Objective 12: Transport, infrastructure: render an efficient effective and corruption free vehicle registration and licensing service, on pages x to x.

Compliance with legislation

29. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. I did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

Internal control

30. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report included in this report.

Leadership

31. The accounting officer did not oversee performance reporting effectively, resulting in material findings on performance information.

Financial and performance management

32. Senior management did not ensure that sufficient controls were in place to prepare accurate and complete performance reports that are supported and evidenced by reliable information. In addition, there was a lack of standard operating procedures to ensure that data is collected consistently and is easy to understand and use.

Other reports

33. I draw attention to the following engagements that could potentially impact on the municipality's financial, performance and compliance related matters. My opinion is not modified in respect of these engagements that are either in progress or have been completed.

Investigations

34. An internal forensic investigation was conducted at the request of the municipality. The investigation was initiated based on a cyber-hacking on the financial system. The investigation was still ongoing at the reporting date.

Johannesburg

30 November 2016



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence