

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND THE COUNCIL ON LEJWELEPUTSWA DISTRICT MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Lejweleputswa District Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages ... to

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 South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2009 (Act No. 2 of 2009) (DoRA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No.108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. 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.
5. 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 entity's preparation and fair presentation 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 entity'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.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Lejweleputswa District Municipality as at 30 June 2010, and its financial performance and its cash flows for the year then ended in accordance with the SA Standards of GRAP and in the manner required by the MFMA.

Emphasis of matter

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

Irregular expenditure

8. As disclosed in note 25.2 to the financial statements, irregular expenditure of R1 068 606 was incurred as a result of allowances paid to councillors exceeding the limits prescribed according to section 167 of the MFMA, due to the incorrect grading used for the payment of the allowances.
9. As disclosed in note 25.2 to the financial statements, irregular expenditure of R11 078 114 was incurred contrary to the requirements of the supply chain management policy. These contracts were awarded without the competitive bidding process being followed.
- An amount of R5 070 957 was spent on the renovation of the roof of the municipality
 - An amount of R1 618 201 was spent in construction of the gatehouse at the municipality
 - An amount of R3 700 000 was spent in construction of the archive building at the municipality
 - An amount of R688 956 was spent in the purchase of a motor vehicle for the mayor
10. Included in the irregular expenditure of R11 078 114 were capital projects amounting to R3 026 804 that were not properly budgeted for as prescribed in the budget for the 2009-10 financial year for the capital projects.
- An amount of R1 570 614 regarding the construction of the archive building at the municipality
 - An amount of R1 448 208 regarding the revamping of the roof at the municipality
 - An amount of R7 982 regarding the construction of the gatehouse and garage at the municipality

Additional matters

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

Unaudited supplementary schedules

11. The annexures set out on pages 55 to 63 do not form part of the financial statements and are presented as additional information. I have not audited these annexures and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. In terms of the PAA and *General Notice 1570 of 2009*, issued in *Government Gazette 32758 of 27 November 2009* I include below my findings on the report on predetermined objectives, compliance with the MFMA, DoRA, Local Government: Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA), Local Government: Municipal Planning and Performance

Management Regulations of South Africa, 2001 (GNR.796 of 24 August 2001) and financial management.

Predetermined objectives

13. Material findings on the report on predetermined objectives, as set out on pages ... to ... are reported below:

Non-compliance with regulatory and reporting requirements

Service delivery budget implementation plan was not approved

14. Contrary to the requirements of section 53(1)(c) of the MFMA, the district municipality's service delivery budget implementation plan was not approved within 28 days after the approval of the annual budget.

Service delivery budget implementation plan was not revised

15. Contrary to the requirements of section 54(1)(c) of the MFMA, the district municipality's service delivery budget implementation plan was not revised after the council had approved adjustments to the capital budget.

Mid-year budget and performance assessment did not include detail

16. Contrary to the requirements of section 72(1)(a) of the MFMA, the mid-year performance report did not contain progress on resolving problems identified in the prior year's annual report, as well as the mid-year performance of the Lejweleputswa Development Agency as required by section 88 of the MFMA.

Mid-year performance report not submitted

17. The accounting officer did not submit the mid-year performance report to the National and Provincial Treasury as required by section 72(1)(b) of the MFMA.

Budget not approved

18. The budget for the Lejweleputswa Development Agency was not considered by the council of the district municipality as required by section 87(3) of the MFMA.

Annual report not submitted

19. The accounting officer of the district municipality did not submit the annual report of the prior year to the Auditor-General, the Provincial Treasury and the Department of Cooperative Governance and Traditional Affairs as required by section 127(5)(b) of the MFMA.

Integrated development plan did not include a financial plan

20. Contrary to the requirements of section 26(h) of the MSA, read with Regulation 2(3) of the Local Government: Municipal Planning and Performance Regulations, 2001, the integrated development plan of the district municipality did not reflect a financial plan.

Integrated development plan not submitted

21. The district municipality's integrated development plan was not submitted within 10 days of the adoption thereof to the MEC for Local Government in the province as required by section 32(1)(a) of the MSA. The amended integrated development plan was also not submitted to the MEC for Local Government in the province as required by section 32(1)(a) of the MSA.

Inadequate content of the integrated development plan

22. The integrated development plan of the district municipality did not include performance targets as required by section 41(1)(b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.

General key performance indicators not included

23. Contrary to the requirements of section 43 of the MSA, the key performance indicators set by the district municipality did not include general key performance indicators applicable to the district municipality.

Multi-year business plan not submitted

24. Contrary to the requirements of section 93B of the MSA, a multi-year business plan for the Lejweleputswa Development Agency, which includes the annual performance objectives and indicators, could not be submitted. An agreement between the chief executive officer representing the entity as well as the accounting officer of the municipality stating these annual performance objectives and indicators could also not be submitted.

Presentation of reported performance information

25. Contrary to the requirements of section 46(1)(b) of the MSA, proof could not be obtained that the performance report included a comparison of the performances with targets set for and performances in the previous financial year.

Compliance with laws and regulations

Municipal Finance Management Act

Accounting officer did not adhere to her statutory responsibilities

26. Contrary to the requirements of section 62(1)(c)(i) of the MFMA, steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control were not always performed.

Expenditure was not paid within the parameters set by the applicable legislation

27. Invoices were not paid within 30 days of the invoice date as required by section 65(2)(e) of the MFMA.

The financial statements were not prepared in accordance with applicable legislation

28. The municipality did not prepare financial statements that fairly present the state of affairs of the municipality, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year as required by section 122(1) of the MFMA, as several fundamental amendments had to be made to the financial statements that were submitted on 31 August 2010.

The audit committee was not functioning properly

29. Contrary to the requirements of section 166(2)(a) of the MFMA, an audit committee was not functioning for the year under review.

Expenditure was incurred in contravention with applicable legislation resulting in irregular expenditure

30. Expenditure amounting to R12 146 720 was not incurred in accordance with the requirements of the supply chain management policy of the municipality as set out in section 1 the definition of "irregular expenditure" paragraph (d) of the MFMA.

Municipal Systems Act

Declarations of interest for the mayor and councillors were not submitted

31. Contrary to schedule 1, Code of Conduct for Councillors, attached to the MSA annual declarations of interest for the mayor and councillors were not submitted. In the absence of declaration of interest by councillors the actions and decisions taken by the councillors could be for personal gain and not committed to serve the public interest as prescribed.

INTERNAL CONTROL

32. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA, MSA, DoRA and the Municipal Planning and Performance Management Regulations, 2001 but not for the purpose of expressing an opinion on the effectiveness of internal control.
33. The matters reported below are limited to the significant deficiencies regarding the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

Leadership

34. The accounting officer did not prioritise and take appropriate action to address the lack of discipline in the finance and supply chain management directorates, resulting in non-compliance with applicable legislation and inadequate budgetary control measures. PROPAC resolutions have not been implemented. This, in turn, resulted in irregular expenditure.

Financial and performance management

35. The financial statements were subjected to material corrections resulting from the audit process, which are attributable to weaknesses in the design and implementation of internal control in respect of financial management and financial reporting and weaknesses in the information systems of the municipality.
36. The work of the third party that completed the financial statements was not reviewed for completeness and accuracy prior to submission for audit purposes.

Governance

37. A risk assessment was not performed for the 2009-10 financial year and therefore management could not respond to assessed risks through determining a risk strategy and action plan to manage identified risks. Consequently, internal controls were not selected and developed to prevent, detect and correct material misstatements in financial reporting and reporting on predetermined objectives.

Bloemfontein

30 November 2010



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

NOT FOR PUBLISHING PURPOSES