

# REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS OF LEJWELEPUTSWA DISTRICT MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2011

## 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 2011, 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) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), 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 2011, 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. Irregular expenditure of R1 969 582 was incurred during the year and disclosed in note 27.3 to the financial statements. The irregular expenditure was incurred as a result of allowances paid to councillors exceeding the limits prescribed according to section 167 of the MFMA:

- R1 180 931 due to the incorrect grading used for the payment of councillors remuneration
- R788 651 due to an overpayment of allowances paid to the councillors

These overpayments have been transferred to receivables for recovery as prescribed.

9. As disclosed in note 27.3 to the financial statements, irregular expenditure of R1 241 889 was incurred contrary to the requirements of the supply chain management policy. These contracts were awarded without the competitive bidding process being followed.

### **Unauthorised expenditure**

10. As disclosed in note 27.1 to the financial statements the municipality incurred expenditure of R617 890 that was not provided for in the approved budget. The expenditure was condoned by Council on 28 June 2011.

## **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 72 to 78 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 accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages xx to xx and material non-compliance with laws and regulations applicable to the municipality.

### **Predetermined objectives**

13. The reported performance information was deficient in respect of the following criteria:
- Validity: Has the actual reported performance occurred and does it pertain to the entity, i.e. can the reported performance information be traced back to the source data or documentation.

- Accuracy: Has amounts, numbers and other data relating to reported actual performance been recorded and reported appropriately.

The following audit finding relates to the above criteria

**Reported performance against indicators is not valid when compared to source information (Reliability)**

14. For the selected programmes, 33% of the reported indicators were not valid based on the source information or evidence provided.

**The validity and accuracy of reported performance against indicators could not be confirmed as no supporting source information was provided (Reliability)**

15. For the selected objectives the validity and accuracy of 31% of the reported indicators could not be established as sufficient appropriate audit evidence or relevant source documentation could not be provided.

**Usefulness of information**

16. The reported performance information was deficient in respect of the following criteria:
  - Measurability: The targets are not specific and time bound.

The following audit findings relate to the above criteria:

**Planned and reported measures are not well defined (Measurability)**

17. For the selected objectives 33% of the planned and reported measures were not clear, as unambiguous data definitions were not available to allow for data to be collected consistently.

**Compliance with laws and regulations**

**Municipal Finance Management Act**

18. Sufficient audit evidence could not be obtained that interest was charged on all arrears accounts as required by section 64(2)(g) of the Municipal Finance Management Act.
19. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. Material misstatements of capital assets and disclosure items identified by the auditors were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.
20. The accounting officer did not take reasonable steps to prevent unauthorised-, irregular-, and fruitless and wasteful expenditure, as required by section 62(1)(d) of the Municipal Finance Management Act.

**Municipal Systems Act**

21. A credit control and debt collection policy was not implemented as required by section 96(b) of the Municipal Systems Act.
22. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes as

required by section 45(1)(a) of the Municipal Systems Act and Municipal Planning and Performance Management Regulation 14.

23. Senior managers directly accountable to the municipal manager did not sign annual performance agreements for the year under review, as required by sections 57(1)(b) and 57(2)(a) of the Municipal Systems Act.

#### **Municipal Planning and Performance Management Regulation 14**

24. The municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee as required by Municipal Planning and Performance Management Regulation 14.
25. The internal audit processes and procedures did not include assessments of the functionality of the municipality's performance management system and whether the system complied with the requirements of the Municipal Systems Act as required by Municipal Planning and Performance Management Regulation 14.
26. The internal audit processes and procedures did not include assessments of the extent to which the municipality's performance measurements were reliable in measuring the performance of the municipality on key as well as general performance indicators as required by Municipal Planning and Performance Management Regulation 14.
27. The internal auditors of the municipality did not audit the performance measurements on a continuous basis and/or did not submit quarterly reports on their audits to the municipal manager and the performance audit committee as required by Municipal Planning and Performance Management Regulation 14.

#### **Supply Chain Management Regulations**

28. The prospective providers list for procuring goods and services through quotations was not updated at least quarterly to include new suppliers that qualify for listing and prospective providers were not invited to apply for such listing at least once a year as per the requirements of SCM regulation 14(1)(a)(ii) and 14(2).

### **INTERNAL CONTROL**

29. In accordance with the PAA and in terms of General notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for the opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

#### **Leadership**

30. 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 budget control measures. PROPAC resolutions have not been implemented. This, in turn, resulted in irregular expenditure.

### **Financial and performance management**

31. 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.
32. The work of the third party that completed the financial statements was not adequately reviewed for completeness and accuracy prior to submission for audit.

### **Governance**

33. A risk assessment was not performed for the 2010/11 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.

*Auditor-General*

Bloemfontein  
30 November 2011



AUDITOR - GENERAL  
SOUTH AFRICA

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