

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

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

1. I have audited the consolidated and separate financial statements of the Lejweleputswa District Municipality and its subsidiary set out on pages xx to xx, which comprise the consolidated and separate statement of financial position as at 30 June 2013, the consolidated and separate statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and statement of comparison of budget and actual amounts, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the consolidated financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with 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, 2012 (Act No. 5 of 2012) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate 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 consolidated and separate financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and 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 consolidated and separate financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate 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 consolidated and separate 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 consolidated and separate 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 consolidated and separate financial statements present fairly, in all material respects, the financial position of the Lejweleputswa District Municipality and its subsidiary as at 30 June 2013 and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

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

Restatement of corresponding figures

8. As disclosed in note 34 to the consolidated and separate financial statements, the corresponding figures for 30 June 2012 have been restated as a result of an error discovered during 2012-2013 in the consolidated and separate financial statements of the Lejweleputswa District Municipality at and for the year ended 30 June 2012.

Impairments

9. As disclosed in note 4 to the consolidated and separate financial statements, a provision for debt impairment to the amount of R12 370 047(2012:R12 370 047) was recognized for sundry debtors due to poor collection practices.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

10. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

11. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages xx to xx of the annual report.
12. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the development objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.
13. The reliability of the information in respect of the selected programmes is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

The material findings are as follows:

Usefulness of information

14. Section 46 of the Municipal Systems Act, 2000 (Act No.32 of 2000)(MSA) requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Adequate and reliable corroborating evidence could not be provided for all measures taken to improve performance as disclosed in the annual performance report. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the reliability of the measures taken to improve performance.
15. The MSA, section 41(c) requires that the actual achievements against all planned indicators and targets must be reported annually. The annual performance report submitted for audit purposes did not include the actual performance of 42% of all planned indicators and 34% of planned targets specified in the integrated development plan for the year under review. This was due to the limited review and monitoring of the completeness of reporting documents by management.
16. The National Treasury *Framework for managing programme performance information (FMPPi)* requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 45% of the targets were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was aware of the requirements of the *FMPPi* but did not receive the necessary training to enable application of the principles
17. The National Treasury *FMPPi* requires that performance targets be measurable. The required performance could not be measured for 30% of the targets. This was due to the fact that management was aware of the requirements of the *FMPPi* but did not receive the necessary training to enable application of the principles.
18. The National Treasury *FMPPi* requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 39% of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was aware of the requirements of the *FMPPi* but did not receive the necessary training to enable application of the principles. The municipal officials did not have adequate competencies and skills required to enable the formulation of indicators and targets that meet the prescribed criteria for inclusion in the IDP and SDBIP
19. The National Treasury *FMPPi* requires that it must be possible to validate the processes and systems that produce the indicator. A total of 100% of the indicators were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the lack of key controls in the relevant systems of collection, collation, verification and storage of actual performance information

Reliability of information

20. The *FMPPi* requires that institutions should have appropriate systems to collect, collate,

verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

21. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to the Municipal transformation and institutional development, Local economic development and the Safety and security development objectives. This was due to limitations placed on the scope of my work as the municipality could not provide evidence in support of the performance reported with respect to these development objectives in time to enable the audit thereof.

Compliance with laws and regulations

22. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA are as follows:

Budgets

23. Revisions to the service delivery and budget implementation plan were not approved by the council after the approval of the adjustments budget, as required by section 54(1) (c) of the MFMA.

Strategic planning and performance management

24. The municipality did not have and maintain effective, efficient and transparent systems of financial and risk management and internal controls as required by section 62(1)(c)(i) of the MFMA.

Annual financial statements, performance and annual report

25. The consolidated and separate 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, revenue, employee cost and various disclosure items identified by the auditors in the submitted consolidated and separate financial statements were subsequently corrected, resulting in the consolidated and separate financial statements receiving an unqualified audit opinion.
26. The 2011-12 annual report was not made public immediately after the annual report was tabled in the council, as required by section 127(5) (a) of the MFMA.
27. The council's oversight report on the 2011-12 annual report was not made public within seven days of its adoption, as required by section 129(3) of the MFMA.
28. The annual performance report for the year under review does not include, a comparison with the previous financial year for measures taken to improve performance, as required by section 46 (1)(a), (b) and (c) of the Municipal Systems Act of South Africa, 2000 (Act No 32 of 2000) (MSA).

Audit committee

29. The audit committee did not advise the council and accounting officer on matters relating to performance management and performance evaluation as required by section 166(2)(a) of the MFMA.
30. The audit committee did not make recommendations to the council, as required by municipal planning and performance management regulation 14(4)(a)(ii).

Internal audit

31. The internal audit unit did not function as required by section 165(2) of the MFMA, in that:
- it did not prepare a risk-based audit plan and an internal audit programme for the financial year under review.
 - it did not report to the audit committee on the implementation of the internal audit plan.
 - it did not advise the accounting officer and report to the audit committee on matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management and loss control.
32. The internal audit unit did not advise the accounting officer and/or report to the audit committee on matters relating to compliance with the Municipal Finance Management Act, the Division of Revenue Act and other applicable legislation, as required by section 165(2)(b)(vii) of the Municipal Finance Management Act.

Expenditure management

33. Reasonable steps were not taken to prevent unauthorised expenditure and irregular expenditure, as required by section 62(1)(d) of the MFMA.

Revenue management

34. A credit control and debt collection policy was not implemented, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of the MFMA.

Asset management

35. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

Consequences management

36. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.
37. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.

Internal control

38. I considered internal control relevant to my audit of the consolidated and separate financial statements, the annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

39. Leadership did not exercise oversight responsibility over performance reporting as a portfolio of evidence to support actual performance reported was not submitted in time for audit purposes. This was due to lack of effective leadership as measures were not taken to ensure that supporting information is submitted within the prescribed timelines.
40. The accounting officer and municipal council did not exercise oversight responsibility over compliance with laws and regulations which resulted in material repeat findings on predetermined objectives and compliance with laws and regulations being reported. There was lack of consequences for poor performance by officials. This was due to instability in key positions as the position of the municipal manager was only permanently filled in last month of the financial year. The municipal council did not

appoint a permanent municipal manager in time to oversee effective implementation of key controls during the year.

Financial and performance management

41. The financial statements were not properly reviewed for completeness and accuracy prior to submission for auditing. This resulted in many findings relating to incorrect disclosure or non-disclosure. This was due to lack of effective leadership as the process of drafting and review of financial statements was not properly planned and implemented. The municipality is dependent on consultants for the preparation of annual financial statements mainly due to lack of key competencies required for the preparation of financial statements. No evidence was obtained to confirm the transfer of skills by consultants to minimise continued dependency on the use of consultants.
42. Ongoing monitoring and supervisory reviews over performance and compliance reporting were not adequate. The internal control weaknesses were not identified and corrected in time to ensure accurate and complete reporting. This was due to instability in key management positions as post of municipal manager was vacant for a long period. A permanent municipal manager was appointed in the last month of the financial year.

Governance

43. The recommendations of internal audit function and the audit committee were not effectively implemented due to instability in the post of the municipal manager. Internal control weaknesses were not timely identified and corrected resulting in material non compliance and predetermined objectives findings.
44. Work performed by the internal audit function was not based on risk assessment and therefore had limited impact on addressing key weaknesses in performance management and compliance with laws and regulations. This was due to lack of effective leadership as risk assessment was not prioritised and implemented.

Bloemfontein

6 December 2013



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence