

Report of the auditor-general to the Free State Legislature and the council on the Lejweleputswa District Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Lejweleputswa District Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, 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, 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 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, 2014 (Act No. 02 of 2014) (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 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 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 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 Lejweleputswa District Municipality as at 30 June 2015 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 33, the corresponding figures for 30 June 2014 were restated as a result of an error discovered during 2014-15 in the financial statements of the district municipality for 30 June 2014.

Irregular expenditure

9. As disclosed in note 41 to the financial statements, the municipality incurred irregular expenditure of R1 557 062 (2014: R5 210 811) during the year under review due to non-compliance with legislation.

Additional matters

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

Unaudited disclosure notes

11. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of 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 thereon.

Report on other legal and regulatory requirements

12. In accordance with the Public Audit Act of South Africa, 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 for selected key performance areas 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

13. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the selected key performance areas (KPAs) presented in the annual performance report of the district municipality for the year ended 30 June 2015:
 - Key performance area 1: Basic services and infrastructure investments pages xx to xx
 - Key performance area 5: Good governance and public participation pages xx to xx.
14. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
15. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned key performance areas. 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).
16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. The material findings in respect of the selected key performance areas are as follows:

Key performance area 1: Basic services and infrastructure investments

Reliability of reported performance information

18. The FMPPI requires auditees to 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. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to the fact that the municipality could not provide sufficient appropriate evidence in support of actual achievements.

Key performance area 5: Good governance and public participation

Reliability of reported performance information

19. The FMPPI requires auditees to 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. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to the fact that the municipality could not provide sufficient appropriate evidence in support of actual achievements.

Additional matter

20. I draw attention to the following matter.

Achievement of planned targets

21. 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 reliability of the reported performance information for the selected key performance areas reported in paragraphs 18 and 19 of this report.

Compliance with legislation

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

Financial statements

23. The financial statements submitted for auditing were not prepared, in all material respects, in accordance with the requirements of section 122 of the MFMA. Material misstatement identified by the auditors in the submitted financial statements was subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

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

25. Irregular expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

Procurement and contract management

26. Awards were made to providers who were in the service of other state institutions or whose directors or principal shareholders were in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44.

Internal control

27. 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 and the findings on compliance with legislation included in this report.

Leadership

28. The municipality did not effectively exercise oversight responsibility of compliance with legislation and performance information. This was as a result of the municipality not prioritising compliance and performance matters. Management should ensure that the organisational structure is updated and all the critical positions are filled.

29. The leadership's response to the key issues affecting the municipality was slow, as the grading of the municipality and the overpayments due to the grading were not corrected in due time.

Financial and performance management

30. The municipality did not ensure that the annual financial statements were properly reviewed for accuracy and completeness prior to submission for auditing. This resulted in material misstatements being identified in the annual financial statements submitted for auditing. The material misstatements identified in the performance report were due to the municipality not properly reviewing the performance report for completeness and accuracy.

Auditor General

Bloemfontein

30 November 2015



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence