

REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE LETSEMENG LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2008

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Letsemeng Local Municipality which comprise the statement of financial position as at 30 June 2008, 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 notes, as set out on pages xx to xx.

Responsibility of the accounting officer for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy notes 1 to 3 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2007 (Act No. 1 of 2007) (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
 - making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 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 conducting the audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Because of the matters discussed in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.
4. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1: *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Letsemeng Local Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

Basis of accounting

5. The municipality's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy notes 1 to 3.

Basis for disclaimer of opinion

Property, plant and equipment

6. As a result of the audit findings detailed below, I was unable to obtain sufficient appropriate audit evidence to conclude on the existence, completeness, valuation of and rights to property, plant and equipment with a carrying value of R119 591 490 (2007: R90 860 763) presented in the statement of financial position and disclosed in note 4 to the financial statements. My audit report on the financial statements for the year ended 30 June 2007, dated 5 November 2008, was modified accordingly.
 - (a) Contrary to the Standard of Generally Accepted Municipal Accounting Practice, GAMAP 17: *Property, Plant and Equipment* (GAMAP 17) which states that *the economic benefits or service potential embodied in an item of property plant and equipment is consumed by the entity principally through the use of the asset*, the management of the Letsemeng Local Municipality did not calculate depreciation on property, plant and equipment in accordance with the estimated useful lives as stated in accounting policy note 6 during either the current or the previous financial year. This resulted in the inaccurate calculation of depreciation. Based on my calculations, depreciation for the year ended 30 June 2007 is understated by R137 671 and the accumulated surplus at that date is overstated by the same amount. Furthermore, accumulated depreciation at 30 June 2007 is understated and property, plant and equipment at that date is overstated by R137 671. Depreciation for the year ended 30 June 2008 is overstated by R585 877, whilst accumulated depreciation at 30 June 2008 is overstated by R448 206. Accumulated surplus and property, plant and equipment at year end are understated by R448 206.
 - (b) According to GAMAP 17, *land and buildings are separable assets and are dealt with separately for accounting purposes, even when they are acquired together*. It was noted that land owned by the municipality has neither been included in the fixed asset register, nor has it been disclosed in note 4 to the financial statements. Consequently, property, plant and equipment is understated. Due to the lack of sufficient appropriate audit evidence I was unable to quantify the extent of the understatement.
 - (c) In GAMAP 17, *property, plant and equipment is defined as tangible assets that (a) are held by an entity for use in the production or supply of goods or services, for rental to others, or for administrative purposes and (b) are expected to be used during more than one reporting period*. Contrary to the standard, the municipality incorrectly classified transactions totalling R614 354 as repairs and maintenance expenditure in the statement of financial performance instead of capitalising it as property, plant and equipment. As a result, repairs and maintenance expenditure for the year ended 30 June 2008 is overstated by R614 354, whilst property, plant and equipment and acquisitions for the year ended 30 June 2008 are understated by the same amount.
 - (d) The descriptions, serial numbers, location and condition of items as indicated in the fixed asset register are inadequate and the total of property, plant and equipment as per the fixed asset register could not be reconciled to the related figure in the financial statements. I was thus unable to perform all the audit procedures that I considered necessary to confirm the

existence, valuation and completeness of property, plant and equipment or to substantiate the ownership thereof. Furthermore, I could not be provided with evidence that management conducted procedures to confirm the existence of property, plant and equipment during the current or preceding financial years. As a result, I could not determine how management ensured that assets listed in the fixed asset register still exist and that all assets are recorded in the fixed asset register. Procedures and practices implemented by the accounting officer were thus not consistently effective to ensure sufficient control over property, plant and equipment as required by section 63(2)(a) of the MFMA.

- (e) Owing to the incorrect classification of amounts included in the year end journals, property, plant and equipment under construction in the sum of R32 256 476 at 30 June 2008 is overstated by R1 114 687, whilst intangible assets at that date are understated by R73 684 and operating expenditure for the year then ended is understated by R1 041 003.
- (f) I could not be provided with sufficient appropriate audit evidence in respect of payments in the sum of R1 911 101 related to capital projects. Due to the extent of the weaknesses identified in the system of control over expenditure, I was not able to perform reasonable alternative audit procedures. Consequently, I was unable to confirm the valuation, rights and obligations and existence of property, plant and equipment under construction in the sum of R32 256 476 at year end.
- (g) The municipality did not utilise the functionality of their accounting system to create separate control accounts to ensure the accurate classification of expenditure for each capital project funded by government grants. Furthermore, the Project Management Unit (PMU) control reports, which account for expenditure related to the Municipal Infrastructure Grant (MIG) on a project basis, were not reconciled to the general ledger. This resulted in the omission of expenditure totalling R9 900 264 related to the MIG from the mentioned reports. In the absence of sufficient, appropriate documentation to support the classification of expenditure related to the MIG, I was unable to confirm the existence, valuation, and completeness of property, plant and equipment financed from the MIG.

Irregular expenditure

- 7. The municipality did not disclose the following irregular expenditure totalling R9 998 640 (2007: R5 786 658), as required by section 125(2)(d) of the MFMA. My audit report on the financial statements for the year ended 30 June 2007, dated 5 November 2008, was modified accordingly.
 - (a) Expenditure totalling R5 471 105 (2007: R125 955) was incurred in contravention of the municipality's *Supply Chain Management Policy* and chapter 11 of the MFMA. Consequently, this expenditure is considered to be irregular expenditure as defined in section 1 of the MFMA.
 - (b) Contrary to section 19(1)(a) of the MFMA which states that *a municipality may spend money on a capital project only if the money for the project, excluding the cost of feasibility studies conducted by or on behalf of the municipality, has been appropriated in the capital budget*, capital expenditure in the sum of R4 527 535 could not be traced to the capital budget. Due to the fact that the expenditure was incurred contrary to section 19 of the MFMA, the expenditure is considered to be irregular.
 - (c) I could not be provided with evidence that bad debts written off in the sum of R5 660 703 in the previous financial year were appropriately authorised in accordance with Letsemeng Local Municipality's delegation of powers and duties. Due to the fact that the bad debts were

written off in contravention of section 79 of the MFMA, the resultant expenditure is considered to be irregular.

8. The management of the Letsemeng Local Municipality could not provide me with sufficient appropriate audit evidence regarding the tender processes followed in respect of certain capital projects. Since the municipality does not utilise separate control accounts in their general ledger to account for expenditure related to capital projects, it is not possible to determine the actual expenditure incurred during the year related to those projects and thus to obtain adequate audit assurance regarding the completeness of irregular expenditure.

Unauthorised expenditure

9. The municipality did not disclose the following unauthorised expenditure totalling R7 614 098 (2007: R9 183 176), as required by section 125(2)(d) of the MFMA. My audit report on the financial statements for the year ended 30 June 2007, dated 5 November 2008, was modified accordingly.
 - (a) The municipality incurred unauthorised expenditure totalling R7 614 098 (2007: R8 467 036) during the year under review due to over expenditure on various votes. I could not be provided with evidence that the expenditure was approved by the council in terms of section 29 of the MFMA as unforeseen and unavoidable expenditure.
 - (b) During the previous financial year, the municipality did not provide evidence that expenditure in respect of additions to property, plant and equipment amounting to R716 140 was incurred in terms of the approved budget. Although this matter was referred to the council, I could not be provided with evidence that the council ratified the expenditure. Due to the fact that this expenditure was incurred in contravention of section 15 of the MFMA, it is considered to be unauthorised.

Comparative figures

10. Due to material weaknesses in the financial accounting and management processes, the municipality was unable to provide me with sufficient appropriate audit evidence in respect of prior year journal entries passed to effect the conversion from IMFO to the basis of accounting as disclosed in accounting policy notes 1 to 3. In the absence of appropriate supporting documentation, I was unable to determine whether all the adjustments that might have been necessary regarding the conversion were indeed processed. Furthermore, since the municipality's accounting records did not permit the application of reasonable alternative audit procedures, I was unable to obtain all the information and explanations I considered necessary to obtain reasonable assurance that the financial position of Letsemeng Local Municipality as at 30 June 2007 is fairly presented in the accompanying financial statements.

Due to the lack of supporting documentation, I was unable to quantify the extent to which the comparative figures are misstated.

Accumulated surplus

11. As a result of the audit finding detailed in paragraph 10 of this report, I was unable to obtain sufficient appropriate audit evidence regarding the existence and valuation of the opening balance of the accumulated surplus in the sum of R33 347 661, presented in the statement

of changes in net assets. My audit report on the financial statements for the year ended 30 June 2007, dated 5 November 2008, was modified accordingly.

Revenue

12. As a result of the audit findings detailed below, I was unable to obtain sufficient appropriate audit evidence to conclude on the completeness, accuracy and occurrence of revenue in respect of property rates in the sum of R3 241 859 (2007: R2 814 134), presented in the statement of financial performance and disclosed in note 14 to the financial statements. The municipality's accounting records did not permit the application of reasonable alternative audit procedures in this regard. My audit report on the financial statements for the year ended 30 June 2007, dated 5 November 2008, was modified accordingly.
 - (a) The management of the Letsemeng Local Municipality did not provide me with sufficient appropriate audit evidence to substantiate a journal to the value of R3 144 198 recorded in the property rates account during the year ended 30 June 2008. I was therefore unable to confirm the occurrence, classification and accuracy of this transaction.
 - (b) No reconciliation was performed between the official valuation roll and the actual rates and taxes levied during either the current or previous financial year. Furthermore, I was not able to confirm the completeness of the revenue by means of recalculation.
 - (c) I could not be provided with sufficient appropriate audit evidence to confirm that management conducted interim valuations or that valuation rolls were updated with improvements during either the current or the previous financial year. As a result, I could not determine how management ensured that properties are listed at appropriate values in the municipal valuation roll.
 - (d) Owner details per the manual valuation roll do not compare to the owner details per the electronic valuation roll. Neither the manual nor the electronic valuation rolls were reviewed or reconciled on a regular basis. It was also found that the valuation rolls are not updated timeously with deeds registered.
13. I could not be provided with registers and lease contracts to confirm the completeness of revenue in respect of rental, dividends, fines and penalties amounting to R488 743 for the year ended 30 June 2007.
14. The management of the Letsemeng Local Municipality did not provide me with sufficient appropriate audit evidence in respect of journals to a debit amount of R24 311 919 and a credit amount of R23 977 321 recorded in various grant control accounts. Since the municipality's accounting records did not permit the application of reasonable alternative audit procedures, I was unable to obtain all the information and explanations I considered necessary to obtain adequate audit assurance as to the accuracy and occurrence of revenue from government grants and subsidies totalling R21 490 122 (2007: R32 472 608), as disclosed in note 16 to the financial statements.
15. As a result of the audit finding detailed in paragraph 20(a) of this report, the accuracy, occurrence and completeness of interest earned on external investments in the sum of R2 592 649, as presented in the statement of financial performance, could not be confirmed. The municipality's accounting records did not permit the application of reasonable alternative audit procedures.
16. The corresponding figure for interest earned on external investments according to the statement of financial performance amounts to R2 765 425 whilst the interest earned for the year ended 30 June 2007 according to the investment register amounts to R1 555 389. The

difference is due to the interest earned on receivables for the year ended 30 June 2007 being understated by R1 210 036 and interest earned on external investments for the year then ended being overstated by the same amount.

Unspent conditional grants and receipts

17. As a result of the audit finding detailed in paragraph 14 of this report, I was unable to confirm the valuation, rights and obligations and existence of unspent conditional grants and receipts in the sum of R334 367 (2007: R3 523 041), as disclosed in note 9 to the financial statements. The municipality's accounting records did not permit the application of reasonable alternative audit procedures.

Government grant reserve

18. As detailed in paragraph 6(d) of this report, owing to deficiencies in the fixed asset register I was unable to perform all the audit procedures that I considered necessary to confirm the existence, valuation and completeness of property, plant and equipment or to substantiate the ownership thereof. Since the government grant reserve is calculated based on the fixed asset register and the source of funding indicated in the register, I was thus unable to obtain sufficient appropriate audit evidence to conclude on the existence, completeness and valuation of the government grant reserve in the sum of R64 655 285 (2007: R69 922 079). The municipality's accounting records did not permit the application of reasonable alternative audit procedures.

Deferred Grants

19. As a result of the audit findings detailed below and in paragraph 14 of this report, I was unable to confirm the valuation and existence of deferred grants totalling R17 108 995, as disclosed in note 10 to the financial statements.
- (a) Due to an accounting error, deferred grants at 30 June 2008 is understated by R1 031 066. Revenue from government grants and subsidies for the year then ended is overstated by the same amount.
- (b) In accordance with South African Statement of Generally Accepted Accounting Practice, IAS 20: *Accounting for Government Grants and Disclosure of Government Assistance*, government grants are only recognised once reasonable assurance has been obtained that the entity will comply with the conditions attached to the grant. Since the municipality did not maintain separate control accounts for expenditure related to different capital projects, I was unable to evaluate whether the expenditure incurred in respect of individual capital projects was in compliance with the conditions attached to the relevant grant. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable audit assurance in this regard.

Cash and cash equivalents

20. As a result of the audit findings detailed below, I was unable to obtain sufficient appropriate audit evidence to conclude on the existence, completeness and valuation of cash and cash equivalents totalling R803 040 (2007: R18 224 154) presented in the statement of financial position and disclosed in note 3 to the financial statements.

- (a) Despite requests for third-party confirmation of short term deposits, certificates confirming the balance of certain short term deposits at 30 June 2008 could not be obtained. In the absence of third-party confirmation, I was unable to confirm the existence, valuation and completeness of short term deposits in the sum of R802 348 or the accuracy, occurrence and completeness of net movements of R8 073 319 on short term deposits during the financial year. The municipality's accounting records did not permit the application of reasonable alternative audit procedures.
- (b) The management of the Letsemeng Local Municipality did not provide me with sufficient appropriate audit evidence in respect of journals with a value of R5 766 090 (2007: R5 003 737) recorded in the short term deposit accounts. The municipality's system of control regarding journals did not allow me to perform reasonable alternative audit procedures.

Expenditure

- 21. I could not be provided with sufficient appropriate audit evidence in respect of bulk purchases of electricity and water. Due to the extent of the weaknesses identified in the system of control over bulk purchases and the lack of supporting documentation, there were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance as to the accuracy, completeness and occurrence of bulk purchases in the sum of R 5 393 990, as disclosed in note 21 to the financial statements.
- 22. Contrary to the requirements of the Statement of Generally Recognised Accounting Practice, GRAP 1: *Presentation of Financial Statements*, the accrual basis of accounting was not consistently applied by the municipality. Telephone and electricity expenditure was only recognised until 25 May 2008. Bulk electricity purchases of at least R494 248 were not recognised for the year under review. Consequently, bulk purchases as disclosed in note 21 to the financial statements are understated by R494 248 and payables as disclosed in note 7 to the financial statements are understated by the same amount. Due to the lack of supporting documentation I was unable to quantify the extent to which telephone expenditure, as disclosed in note 29, and payables, as disclosed in note 7 to the financial statements, are misstated. The municipality's system of control over expenditure did not permit the application of reasonable alternative audit procedures.
- 23. The management of the Letsemeng Local Municipality did not provide me with sufficient appropriate audit evidence for expenditure transactions amounting to R608 362. I could also not be provided with sufficient appropriate audit evidence in respect of journals amounting to R809 064. The system of control over the recording and classification of expenditure was not adequate and as a result there were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all these expense journals and transactions had occurred and were accurately recorded and classified in the financial records of the municipality.
- 24. As a result of the audit finding detailed in paragraph 29 of this report, I was unable to confirm the occurrence and completeness of expenditure relating to corresponding payables. The municipality's accounting records did not permit the application of reasonable alternative audit procedures.
- 25. Contrary to the Statement of Generally Recognised Accounting Practice, GRAP1: *Presentation of Financial Statements*, which defines expenses as *a decrease in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets, or increases in liabilities that result in a decrease in net assets*, the

municipality recognised inter-departmental charges of R7 974 806 (2007: R5 861 101). These charges do not represent an outflow or consumption of assets or increase in liability, therefore resulting in an overstatement of operating expenditure as disclosed in note 29 and other income for the year ended 30 June 2008, as disclosed in note 17 to the financial statements. I was unable to obtain sufficient appropriate audit evidence to support the classification of the prior year inter-departmental charges in the revenue accounts of the municipality.

Capital Commitments

26. The municipality did not maintain a contract register which provides particulars of all approved capital contracts, the expenditure incurred to date and the municipality's future capital commitment in respect of each contract. Furthermore, the municipality did not retain records of all capital contracts awarded. In the absence of sufficient appropriate audit evidence, there were no satisfactory audit procedures that I could perform to obtain reasonable assurance that capital commitments in the sum of R26 920 000 (2007: R71 330 724), as disclosed in note 22 to the financial statements, are complete, recorded in the financial statements at appropriate amounts or that they represent *bona fide* obligations to the municipality at 30 June 2008. My audit report on the financial statements for the year ended 30 June 2007, dated 5 November 2008, was modified accordingly.

Taxes payable

27. The management of the Letsemeng Local Municipality did not provide me with sufficient appropriate audit evidence to substantiate a debit journal entry amounting to R426 886 that was processed to transfer the total balance of the VAT input account to the taxes payable. The VAT input account reflected no movement for both the 2006 and 2007 financial years. As the municipality's accounting records did not permit the application of reasonable alternative audit procedures, I was unable to obtain all the information and explanations I considered necessary to obtain reasonable assurance as to the existence, valuation and rights and obligations attached to the taxes payable in the sum of R351 512 (2007: R1 253 451), as disclosed in note 11 to the financial statements.

Accruals

28. The management of the Letsemeng Local Municipality did not provide me with sufficient appropriate audit evidence in respect of the accrual for staff leave of R664 155 as disclosed in note 8 to the financial statements. In the absence of a proper system of control over accruals, I was unable to confirm the existence, completeness, valuation and rights and obligations attached to accruals at 30 June 2008. Due to the lack of supporting documentation, there were no satisfactory alternative audit procedures that I could perform.

Payables

29. The management of the Letsemeng Local Municipality did not provide me with sufficient appropriate audit evidence to support sundry creditors totalling R878 294 which are included in payables. Based on a recalculation of the creditors list provided by management, taking into consideration only invoices dated before year end, payables are understated by at least R845 801, whilst operating expenditure as disclosed in note 29 to the financial statements is

understated by the same amount. As a result of the lack of a proper system of control over payables, I was unable to obtain all the information and explanations I considered necessary to obtain adequate audit assurance as to the existence and valuation of payables in the sum of R906 667 or the completeness of operating expenditure for the year ended 30 June 2008, as disclosed in notes 7 and 29 to the financial statements respectively.

Receivables

30. According to the Statement of Generally Recognised Accounting Practice, GRAP1: *Presentation of Financial Statements, when the accrual basis of accounting is used, items are recognised as assets, liabilities, net assets, revenue and expenses when they satisfy the definitions and recognition criteria for those elements in the Framework.* Notwithstanding, the write-off of indigent balances prior to year end was not recorded in the accounting records of the municipality and the relevant amounts were still included in consumer receivables in the financial statements. Consumer receivables at 30 June 2008, as disclosed in note 1 to the financial statements, are thus overstated by R103 318, whilst bad debts for the year then ended are understated by the same amount.
31. An estimate in respect of electricity and water consumption for the period between the last meter-reading date and the year end has been incorrectly classified and included in other receivables in note 2 to the financial statements. Had the receivable been correctly classified, consumer receivables as disclosed in note 1 to the financial statements would have been increased by R325 049 (2007: R423 134), whilst other receivables at 30 June 2008 and 30 June 2007 would have decreased by the mentioned amounts.
32. I could not be provided with evidence that consumer and other receivables had been impaired in accordance with the requirements of the South African Statement of Generally Accepted Accounting Practice, IAS 39: *Financial Instruments: Recognition and Measurement.* The municipality only made a general provision for doubtful receivables. As the relevant information was not available I was not able to determine what the impairment charge should have been has IAS 39 been applied correctly. My audit report on the financial statements for the year ended 30 June 2007, dated 5 November 2008, was modified accordingly.
33. The corresponding figure for total consumer receivables in the sum of R9 354 327, as disclosed in note 1 to the financial statements, does not agree to the total consumer receivables of R9 462 545 according to the age analysis at 30 June 2007. The management of Letsemeng Local Municipality was unable to provide a reasonable explanation for the difference of R108 218. The analysis of the debtors ageing, as disclosed in note 1 to the financial statements amounts to R9 461 053 and does not agree with the total disclosed consumer receivables of R9 354 327. In the circumstances I was unable to perform all the procedures and obtain all the explanations that I considered necessary and there were no reasonable alternative audit procedures that I could perform to confirm the completeness, rights and valuation of the corresponding figure for total consumer receivables.

Consumer deposits

34. I was unable to confirm the completeness and valuation of consumer deposits in the sum of R422 281 (2007: R420 839), presented in the statement of financial position and disclosed in note 6 to the financial statements. This was due to the fact that the municipality did not maintain a register of consumer deposits and reconciliations between the consumer deposit

control account and the individual debtor accounts were not performed. The municipality's accounting records did not permit the application of reasonable alternative audit procedures. My audit report on the financial statements for the year ended 30 June 2007, dated 5 November 2008, was modified accordingly.

Financial instruments

35. In contravention of the South African Statement of Generally Accepted Accounting Practice, IAS 32: *Financial Instruments: Disclosures*, several qualitative disclosures relating to the different risks arising from the entity's financial statements, and how these risks were managed, were not disclosed.

Events after the reporting date

36. The management of the Letsemeng Local Municipality did not provide sufficient appropriate audit evidence that all events subsequent to the date of the accompanying financial statements up to date of this audit report that may require adjustment of, or disclosure in, the accompanying financial statements, have been identified. As a result, I was unable to determine whether any adjustments to, or disclosure in the accompanying financial statements might have been found necessary had I been able to perform such an evaluation. My audit report on the financial statements for the year ended 30 June 2007, dated 5 November 2008, was modified accordingly.

Disclaimer of opinion

37. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the Letsemeng Local Municipality. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matters

I draw attention to the following matters:

Amendments to the applicable basis of accounting

38. As set out in accounting policy note 1, the National Treasury had approved a deviation from the basis of accounting applicable to the municipality in terms of *General Notice 552 of 2007*, issued in *Government Gazette No. 30013 of 29 June 2007*.

Restatement of corresponding figures

39. As disclosed in note 24 to the financial statements, the corresponding figures for 30 June 2007 have been restated as a result of various errors discovered during 2008 in the financial statements of the Letsemeng Local Municipality at, and for the year ended 30 June 2007.

OTHER MATTERS

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Internal controls

40. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the inefficiencies in the system of internal control, which led to the disclaimer of opinion. The root causes are categorised according to the five components of an effective system of internal control. In some instances deficiencies exist in more than one internal control component.

Reporting item	Control environment	Risk assessment	Control activities	Information and communication	Monitoring
Property, plant and equipment			X	X	
Irregular expenditure			X		X
Unauthorised expenditure			X		X
Comparative figures			X		X
Accumulated surplus				X	X
Revenue			X	X	
Unspent conditional grants and receipts			X	X	
Government grant reserve			X	X	
Deferred grants			X	X	
Cash and cash equivalents			X		X
Expenditure			X	X	
Capital commitments			X		
Taxes payable			X	X	
Accruals			X		X
Payables			X		X
Receivables			X		
Consumer deposits	X		X		

Reporting item	Control environment	Risk assessment	Control activities	Information and communication	Monitoring
Financial instruments	X		X		
Events after the reporting date	X	X			

Control environment: establishes the foundation for the internal control system by providing fundamental discipline and structure for financial reporting.

Risk assessment: involves the identification and analysis by management of relevant financial reporting risks to achieve predetermined financial reporting objectives.

Control activities: policies, procedures and practices that ensure that management's financial reporting objectives are achieved and financial reporting risk mitigation strategies are carried out.

Information and communication: supports all other control components by communicating control responsibilities for financial reporting to employees and by providing financial reporting information in a form and time frame that allow people to carry out their financial reporting duties.

Monitoring: covers external oversight of internal controls over financial reporting by management or other parties outside the process; or the application of independent methodologies, like customised procedures or standard checklists, by employees within a process.

Non-compliance with applicable legislation

Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003)

41. The management of the Letsemeng Local Municipality did not maintain full and proper records in accordance with section 62(1)(b) of the MFMA and did not always submit information, returns, documents, explanations and motivations as required by the Auditor-General in accordance with section 74(1) of the said act.
42. Contrary to section 115(b) of the MFMA, the accounting officer did not establish proper mechanisms to ensure separation of duties in respect of demand management, procurement stores and warehousing, and performance and contract management.
43. According to section 64(2)(a) of the MFMA, *the accounting officer must take all reasonable steps to ensure that the municipality has effective revenue collection systems consistent with section 95 of the Municipal Systems Act and the municipality's credit control and debt collection policy.* Notwithstanding, it was noted that long overdue debtors were not handed over to attorneys for collection nor were other reasonable steps taken to recover these amounts due to the municipality.
44. I could not be provided with evidence that the accounting officer submitted reports to the executive mayor within ten days after the end of each month on the state of the municipality's budget in accordance with section 71(1) of the MFMA.
45. In terms of section 131 of the MFMA, a municipality must address any issues raised by the Auditor-General in an audit report. The mayor of a municipality must ensure compliance by the municipality. Various matters noted in my audit report on the financial statements for the year ended 30 June 2007, dated 5 November 2008 have not yet been resolved by management. As a result, the mayor and management of the Letsemeng Local Municipality did not fulfil their responsibility in terms of section 131 of the MFMA.

Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA)

- 46. According to section 11(3)(a) of the MSA, regulations, plans and policies should be established, approved and implemented by the municipality that should govern the different processes and activities of the municipality. Notwithstanding, it was noted that the municipality has not established or implemented formally documented and approved policy frameworks for the financial transactions and events related to several important business processes.
- 47. Section 6(c) of the MSA requires the administration of a municipality to take measures to prevent corruption. Contrary to this prescript, neither a formally documented and approved risk assessment strategy and risk assessment plan nor a fraud prevention plan existed during the year under review, resulting in risks not being identified or assessed by management and the risk that fraud might not be prevented or detected timeously.
- 48. Contrary to section 38 of the MSA, the performance of middle level management and their subordinates was not evaluated during the year under review. Furthermore, the performance of section 57 managers was also not evaluated as required by sections 57(1) (b), (4A), (4B) and 5 of the act.

Division of Revenue Act, 2007 (Act No. 1 of 2007)

- 49. Contrary to the requirements of Section 31(2) of the Division of Revenue Act, the accounting officer did not submit electronic returns of the municipality's conditional grant spending to the Provincial Treasury for the period ending 30 June 2008. The municipality thus failed to comply with the legislative requirements outlined by section 71 of the MFMA.

Matters of governance

- 50. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

Matter of governance	Yes	No
Audit committee		
• The municipality had an audit committee in operation throughout the financial year.	X	
• The audit committee operates in accordance with approved, written terms of reference.		X
• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.		X
Internal audit		
• The municipality had an internal audit function in operation throughout the financial year.		X
• The internal audit function operates in terms of an approved internal audit plan.		X

Matter of governance	Yes	No
<ul style="list-style-type: none"> The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA. 		X
Other matters of governance		
<ul style="list-style-type: none"> The annual financial statements were submitted for audit as per the legislated deadlines (section 126 of the MFMA). 	X	
<ul style="list-style-type: none"> The financial statements submitted for audit were not subject to any material amendments resulting from the audit. 		X
<ul style="list-style-type: none"> No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management. 		X
<ul style="list-style-type: none"> The prior year's external audit recommendations have been substantially implemented. 		X
<ul style="list-style-type: none"> The Provincial SCOPA resolutions have been substantially implemented. 		X
Implementation of Standards of Generally Recognised Accounting Practice (GRAP)		
<ul style="list-style-type: none"> The municipality submitted an implementation plan, detailing progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 30 October 2007. 		X
<ul style="list-style-type: none"> The municipality substantially complied with the implementation plan it submitted to the National Treasury and the relevant provincial treasury before 30 October 2007, detailing its progress towards full compliance with GRAP. 		X
<ul style="list-style-type: none"> The municipality submitted an implementation plan, detailing further progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 31 March 2008. 		X

Unaudited supplementary schedules

51. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

OTHER REPORTING RESPONSIBILITIES

REPORT ON PERFORMANCE INFORMATION

52. I have reviewed the performance information as set out on pages xx to xx.

Responsibility of the accounting officer for the performance information

53. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Responsibility of the Auditor-General

54. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.

55. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

56. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings (performance information)

Non-compliance with regulatory requirements

57. Contrary to regulations 13 and 15 of the Municipal Planning and Performance Management Regulations, 2001 (GNR. 796), evidence that the key performance indicators included in the Integrated Development Plan were reviewed could not be obtained.

58. I could not be provided with evidence that the performance management system was monitored and reviewed as required by section 40 of the MSA.

59. Contrary to section 42 of the MSA, the management of the Letsemeng Local Municipality did not provide me with evidence that the local community were involved in the development, implementation and review of the municipality's performance management system or that the community participated in the setting of appropriate key performance indicators and performance targets for the municipality.

Existence and functioning of a performance audit committee

60. I could not be provided with evidence that the municipality had a performance audit committee in operation during the financial year, nor was another audit committee utilised as the performance audit committee.

Performance information not received in time

61. I was not able to complete an evaluation of the quality of the reported performance information as set out on pages xx to xx of the annual report, since the information was not received in time.

APPRECIATION

62. The assistance rendered by the staff of the Letsemeng Local Municipality during the audit is sincerely appreciated.

Auditor-General

Bloemfontein

27 March 2009



AUDITOR - GENERAL
SOUTH AFRICA