

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

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying financial statements of the Lejweleputswa District Municipality which comprise the balance sheet as at 30 June 2008, income statement 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 entity-specific basis of accounting, as set out in accounting policy note 1 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 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 the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on 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.

6. An audit also includes evaluating the:
- appropriateness of accounting policies used
  - reasonableness of accounting estimates made by management
  - overall presentation of the financial statements.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### **Basis of accounting**

8. The municipality's policy is to prepare financial statements on the entity-specific basis of accounting, as set out in accounting policy note 1.

#### **Basis for qualified opinion**

##### **Property, plant and equipment**

9. Owing to inadequate descriptions contained in the asset register, adequate audit assurance could not be obtained as to the existence of assets amounting to R1 148 900, included in property plant and equipment amounting to R14 525 777 disclosed in note 2 to the financial statements. Due to inadequate information in the asset register, I was also unable to perform alternative procedures to obtain adequate audit assurance as to the existence of the assets. Accordingly, I was not able to determine whether any adjustments might be necessary to the amounts shown in the financial statements for fixed assets.

#### **Qualified opinion**

10. In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to satisfy myself as to the matter described in the Basis of qualified opinion paragraph, the financial statements of the Lejweleputswa District Municipality as at 30 June 2008 and its financial performance and cash flows for the year then ended have been prepared, in all material respects, in accordance with the basis of accounting as set out in accounting policy note 1 and in the manner required by the MFMA and DoRA.

#### **Emphasis of matters**

I draw attention to the following matters:

##### **Unauthorised and irregular expenditure**

11. As disclosed in note 27 to the financial statements, irregular expenditure amounting to R1 443 457 was incurred due to supply chain procedures not being followed for expenditure amounting to R402 981 as well as councillor allowances amounting to R1 040 476 being incorrectly paid in contravention of the Remuneration of Public Office Bearers Act, 1998 (Act No. 20 of 1998).
12. As disclosed in note 28 to the financial statements, unauthorised expenditure amounting to R881 982 was incurred due to the overspending of the approved capital budget.

#### **OTHER MATTERS**

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

**Internal controls**

13. 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 qualified opinion. The root causes are categorised according to the five components of an effective system of internal control.

Reporting item	Control environment	Risk assessment	Control activities	Information and communication	Monitoring
Property, plant and equipment			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 allows 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**

**Municipal Finance Management Act**

14. Contrary to section 65(2)(e) of the MFMA, invoices amounting to R351 477 were not paid within 30 days of receipt of the invoice, while it could not be confirmed that invoices amounting to R1 693 544 were paid within 30 days of receipt of the invoice, as the invoices did not contain a date stamp indicating the date on which they were received.
15. The submission of the annual reports and financial statements of the Lejwe Le Putswa Development Agency for 2006-07 was not adequately monitored, as required by section 128 of the MFMA.
16. Unauthorised expenditure of R1 306 077 for the previous financial year has not been authorised in an adjustment budget or certified by the municipal council, after investigation by a council committee, as irrecoverable and written off by the council, as required in terms of section 32(2)(a) of the MFMA.
17. Irregular, fruitless and wasteful expenditure of R6 361 015 incurred during the previous financial year has not been recovered or, after investigation by a council committee, certified by the council as irrecoverable and written off, as required by section 32(2)(b) of the MFMA.

18. Contrary to section 32(4) of the MFMA, the mayor, the MEC for local government in the province and the Auditor-General were not informed in writing of the unauthorised and irregular expenditure incurred during the current financial year.

**Local Government: Municipal Systems Act**

19. Two members of the council did not declare their financial interests, as required by schedule 1 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

**Matters of governance**

20. 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:

<b>Matter of governance</b>	<b>Yes</b>	<b>No</b>
<b>Audit committee</b>		
• 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
<b>Internal audit</b>		
• 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
• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.		X
<b>Other matters of governance</b>		
• The annual financial statements were submitted for audit as per the legislated deadlines in section 126 of the MFMA.	X	
• The annual report was submitted to the auditor for consideration prior to the date of the auditor's report.	X	
• The financial statements submitted for audit were not subject to any material amendments resulting from the audit.		X
• No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.	X	
• The prior year's external audit recommendations have been substantially implemented.	X	
• The provincial SCOPA resolutions have been substantially implemented.		X

Implementation of Standards of Generally Recognised Accounting Practice (GRAP)		
<ul style="list-style-type: none"> <li>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.</li> </ul>	X	
<ul style="list-style-type: none"> <li>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.</li> </ul>	X	
<ul style="list-style-type: none"> <li>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.</li> </ul>		X

**Unaudited supplementary schedules**

21. The supplementary information set out on pages [XX] to [XX] of the financial statements does not form part of the financial statements and is presented as additional information. I have not audited this schedule and accordingly I do not express an opinion thereon.

**OTHER REPORTING RESPONSIBILITIES**

**REPORT ON PERFORMANCE INFORMATION**

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

**Responsibility of the accounting officer for the performance information**

23. 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 MSA.

**Responsibility of the Auditor-General**

24. 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.

25. 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.

26. 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**

27. The key performance indicators set by the municipality did not include four general key performance indicators applicable to the municipality, as prescribed in terms of section 43(1) of the MSA.
28. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal auditing processes, as required in terms of section 45 of the MSA.
29. A functioning performance audit committee, as required by section 14(2)(a) of the Planning and Performance Management Regulations, 2001, did not exist during the year under review.
30. Evidence could not be obtained that the mid-year budget and performance of the Lejwe Le Putswa Development Agency (Pty) Ltd was assessed by the municipality, as required in terms of section 72 of the MFMA.
31. I draw attention to the fact that the municipality did not report on 10 predetermined objectives, as required by sections 41(1)(c) and 46 of the MSA.

### **Lack of sufficient appropriate audit evidence**

32. The following actual achievement of indicators and targets could not be substantiated by adequate evidence and source documentation:
  - 90% contribution towards bucket eradication in the Nala and Masilonyana Local Municipalities.
  - 100% contribution towards the purchase of rescue equipment to establish a reactive fire fighting service.

### **APPRECIATION**

33. The assistance rendered by the staff of the municipality during the audit is sincerely appreciated.

*Auditor-General*

Bloemfontein

30 November 2008



A U D I T O R - G E N E R A L