

**REPORT OF THE AUDITOR-GENERAL
TO THE
NORTHERN CAPE
PROVINCIAL LEGISLATURE
ON THE FINANCIAL STATEMENTS AND
PERFORMANCE INFORMATION OF
PIXLEY KA SEME DISTRICT
MUNICIPALITY
FOR THE YEAR ENDED
30 JUNE 2008**

REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL LEGISLATURE AND COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF PIXLEY KA SEME 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 Pixley ka Seme District Municipality which comprise the statement of financial position as at 30 June 2008, statement of financial performance 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 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(3) 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. 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 municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

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

Basis for qualified opinion

Property, plant and equipment

10. The existence, valuation, rights and obligations and completeness of property, plant and equipment disclosed in note 5 to a value of R12 452 683 could not be confirmed due to the following:
- The existence of certain assets could not be confirmed due to the absence of information on the identification and the location of the assets.
 - The completeness of property, plant and equipment could not be confirmed as several assets could not be traced to the asset register and assets with values less than R3 000 were not recognised. It was further noted that several assets which are insured, do not appear on the asset register.
 - Disclosures relating to finance leases were not complete as cell phones have not been included as required by IAS 17 (AC 105), This resulted in the liability and asset in respect of the finance lease assets being understated in the financial statements.
 - No alternative procedures could be performed to confirm the existence, valuation and completeness of property, plant and equipment disclosed.

Irregular expenditure

11. Expenditure amounting to R5 492 577 was incurred in contravention of the supply chain management policy and should have been regarded as irregular expenditure and disclosed as such in the financial statements as required by section 125(d)(i) of the MFMA.

Qualified opinion

12. 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 matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects the financial position of the Pixley ka Seme District Municipality as at 30 June 2008 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting as set out in accounting policy note 1 and in the manner required by the MFMA and the DoRA.

OTHER MATTERS

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

Internal control

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 of the matters indicated, as they relate to the five components of internal control. In some instances deficiencies exist in more than one internal control component.

Reporting item	Control environment	Assessment of risks	Control activities	Information and communication	Monitoring
Basis for qualified opinion					
Property, plant and equipment			X		X
Irregular expenditure			X		X
<p><u>Control environment</u>: establishes the foundation for the internal control system by providing fundamental discipline and structure for financial reporting.</p> <p><u>Risk assessment</u>: involves the identification and analysis by management of relevant financial reporting risks to achieve predetermined financial reporting objectives.</p> <p><u>Control activities</u>: policies, procedures and practices that ensure that management's financial reporting objectives are achieved and financial reporting risk mitigation strategies are carried out.</p> <p><u>Information and communication</u>: 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.</p> <p><u>Monitoring</u>: 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.</p>					

Non-compliance with applicable legislation

Municipal Finance Management Act

14. The mayor of the municipality did not table the annual budget at a council meeting at least 90 days before the start of the budget year as required by section 16(2) of the MFMA.
15. The accounting officer did not report on unauthorised, irregular or fruitless and wasteful expenditure as required by section 32(4).
16. Various payments were found to be paid after 30 days from receipt of the invoice from the supplier which resulted in non-compliance with section 65.

Matters of governance

17. 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	
• 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		
• The annual financial statements were submitted for audit as per the legislated deadlines per 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
Implementation of Standards of Generally Recognised Accounting Practice (GRAP)		
• 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	X	

Matter of governance	Yes	No
2007.		
<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

18. The municipality provided supplementary information in the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with GRAP 1 *Presentation of Financial Statements*. The supplementary information as set out in appendices A and F does not form part of the financial statements and is presented as additional information. Accordingly I do not express an opinion thereon.

OTHER REPORTING RESPONSIBILITIES

Reporting on performance information

19. I was engaged to review the performance information.

Responsibility of the accounting officer

20. 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

21. I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.

22. 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.

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

Audit findings

Non-compliance with regulatory requirements

Performance information not received in time

24. I was not able to complete an evaluation of the quality of the performance information as it was not received in time.

APPRECIATION

25. The assistance rendered by the staff of the Pixley ka Seme District Municipality during the audit is sincerely appreciated.

Auditor - General

Kimberley

30 November 2008



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

Your cooperation to ensure that all these requirements are met would be much appreciated.
Kindly acknowledge receipt of this letter.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Louis Els', with a stylized flourish at the end.

Louis Els
Senior Manager: Northern Cape

Enquiries: Louis Els
Telephone: (053) 831 1016
Fax: (053) 833 3231
Email: louisels@agsa.co.za