

**REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL  
LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND  
PERFORMANCE INFORMATION OF MOPANI DISTRICT MUNICIPALITY FOR  
THE YEAR ENDED 30 JUNE 2009**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying financial statements of the Mopani District Municipality which comprise the balance sheet, the income statement and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 4 to 16.

**The accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation 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 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.

**The Auditor-General's responsibility**

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), 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 read with *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 about 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. 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.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

7. In my opinion the financial statements of the Mopani District Municipality as at 30 June 2009 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.

**Emphasis of matters**

Without qualifying my opinion, I draw attention to the following matters:

**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.

**Significant uncertainty**

9. With reference to note 25 to the financial statements, the municipality has guaranteed payment to the Lepelle Northern Water of the long outstanding water debt of Ba-Phalaborwa Municipality to an amount of R89.2 million.

**Unauthorised, irregular and fruitless and wasteful expenditure**

10. As disclosed in note 27 to the financial statements, unauthorised expenditure amounting to R99.3 million has been incurred as the actual operating expenditure exceeded the adjusted budget.
11. As disclosed in note 28 to the financial statements, irregular expenditure to the amount of R41.1 million was incurred. Included is an amount of R36.2 million, emanating from payments made to consultants without following a competitive bidding process.
12. Included in the fruitless and wasteful expenditure amount disclosed in note 29 to the financial statements is expenditure to an amount of R6.4 million which was incurred on an abandoned water project.

**Restatement of corresponding figures**

13. As disclosed in note 30 to the financial statements, the corresponding figures for 30 June 2008 have been restated as a result of errors discovered during the current year in the financial statements of the Mopani District Municipality at, and for the year ended 30 June 2008.

**Other matters**

Without qualifying my audit opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

**Other information included in the annual report**

14. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

**Unaudited supplementary schedules**

15. The supplementary information set out on pages 17 to 19 does not form part of the financial statements and is presented as additional information. I have not audited this and accordingly I do not express an opinion thereon.

## Non-compliance with applicable legislation

### Local Government: Municipal Finance Management Act

16. A council committee did not yet commence with investigations to unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality in the prior years and disclosed in notes 27 to 29 to the financial statements, as required by section 32(2) of the MFMA.

### Governance framework

17. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the key governance responsibilities addressed below:

### Key governance responsibilities

18. 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 key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
<b>Clear trail of supporting documentation that is easily available and provided in a timely manner</b>			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	✓	
<b>Quality of financial statements and related management information</b>			
2.	The financial statements were not subject to any material amendments resulting from the audit.		✓
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.		✓
<b>Timeliness of financial statements and management information</b>			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines (section 126 of the MFMA).	✓	
<b>Availability of key officials during audit</b>			
5.	Key officials were available throughout the audit process.	✓	
<b>Development and compliance with risk management, effective internal control and governance practices</b>			
6.	Shared audit committee		
	• The municipality had an audit committee in operation throughout the financial year.	✓	
	• The audit committee operates in accordance with approved, written terms of reference.	✓	
	• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.	✓	
7.	Internal audit		
	• The municipality had an internal audit function in operation throughout the financial year.	✓	
	• The internal audit function operates in terms of an approved internal audit plan.	✓	
	• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.	✓	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		✓

No.	Matter	Y	N
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		✓
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	✓	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(1)(c)(i) of the MFMA.	✓	
12.	Delegations of responsibility are in place, as set out in section 79 of the MFMA.	✓	
<b>Follow-up of audit findings</b>			
13.	The prior year audit findings have been substantially addressed.	✓	
<b>Issues relating to the reporting of performance information</b>			
14.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	✓	
15.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.	✓	
16.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Mopani District Municipality against its mandate, predetermined objectives, outputs, indicators and targets (section 68 of the MFMA).	✓	
17.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	✓	

19. The availability of management and key officials during the audit process resulted in an improvement in the quality of the financial statements, and the audit opinion, compared to the prior year.
20. Due to a lack of appropriate skills in the finance section, a consultant was appointed to compile the annual financial statements. However, also as a result of the mentioned lack of skills, a proper quality review of the financial statements could not be performed prior to submission for audit purposes.
21. The identification and disclosure of unauthorised, fruitless and wasteful and irregular expenditure in the notes to the financial statements emanated from a lack in the design and implementation of internal control in respect of financial and risk management as well as compliance with applicable laws and regulations.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **Report on performance information**

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

### **The accounting officer's responsibility 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 Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

### **The Auditor-General's responsibility**

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 findings reported below.

#### **Findings on performance information**

##### **Non-compliance with regulatory requirements**

##### **Content of integrated development plan**

27. The integrated development plan of the Mopani District Municipality did not include the key performance indicators and performance targets determined in terms of its performance management system, as required by sections 26(i) and 41(1)(b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.

##### **No mid-year budget and performance assessments**

28. The accounting officer of the Mopani District Municipality did not assess the performance of the municipality during the first half of the financial year, taking into account the past year's annual report and progress on resolving problems identified in the annual report, as required by section 72 of the MFMA.

#### **Reported performance information not reliable**

##### **Lack of source documentation**

29. Sufficient appropriate audit evidence in relation to the reported performance information in the annual performance report could not be obtained, as the relevant source documentation could not be provided for audit purposes.

#### **APPRECIATION**

30. The assistance rendered by the staff of the Mopani District Municipality during the audit is sincerely appreciated.

*Auditor - General*

Polokwane

1 February 2010



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*