

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE AND THE COUNCIL ON VHEMBE DISTRICT MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Vhembe District Municipality, which comprise the statement of financial position as at 30 June 2010, and the 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 information, as set out on pages xx to xx

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 in the manner required by the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA). 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; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996) and, section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. 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.

Basis for qualified opinion

Trade and other payables

7. My audit report for the prior year was modified due to an unexplained difference of R3,1 million between the general ledger and the financial statements and this matter had not been resolved for the year ended 30 June 2010. I was unable to determine whether adjustments to the results of operations and opening accumulated surplus might be necessary for the year ended 30 June 2009. Our opinion for the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures and the corresponding figures.

Commitments

8. There was no contract management system in place for the identification and recognition of contracts and there were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all commitments were properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of commitments of R430 million (2009: R258,6 million), as stated in note 27 to the financial statements

Expenditure

9. As orders are captured onto the accounting system of the municipality, the system automatically allocates the orders as a transaction in the underlying accounting records. On receipt of the goods or services by the municipality, manual intervention is required to offset the order against the actual transaction. I identified orders to the value of R9,7 million that were not cancelled on the system on receipt of the actual goods or services received. As a result, expenditure, VAT receivable and payables are misstated by the same amount.

Qualified Opinion

10. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Vhembe District Municipality for the year ended 30 June 2010 financial performance and its cash flows for the year then ended are prepared, in all material respects, in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the MFMA.

Emphasis of matter

11. I draw attention to the matters below. My opinion is not modified in respect of this matter:

Fruitless and wasteful expenditure

12. As disclosed in note 36 to the financial statements, the municipality incurred fruitless expenditure of R283 667 due to penalties and interest imposed by SARS on late payments.

Additional matters

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

Unaudited supplementary schedules

13. The supplementary information set out on pages X to X 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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

14. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations and financial management (internal control).

Predetermined objectives

15. Material findings on the report on predetermined objectives, as set out on pages xx to xx, are reported below:

Non-compliance with regulatory and reporting requirements**Existence and functioning of the audit committee**

16. The municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee, as required by regulation 14(2) of the Municipal Planning and Performance Management Regulations, 2001.

Usefulness of reported performance information

The following criteria were used to assess the usefulness of the planned and reported performance:

- Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?

- **Measurability:** Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?
The following findings relate to the above criteria:

Inadequate presentation of reported information

17. The reported performance information to be included in the annual report is not presented in a simple, accessible format, relevant and useful to the intended user, and/or in accordance with the requirements of MFMA circular 11 and the relevant guidance applicable to reporting for the financial year-end
18. The municipality has not reported on some of its performance against predetermined objectives which is consistent with the approved integrated development plan

Compliance with laws and regulations

MFMA

The financial statements were not prepared in accordance with applicable legislation

19. Contrary to section 122(1) of the MFMA the municipality did not prepare financial statements that fairly present its state of affairs as material misstatements were corrected during the audit.

Expenditure incurred was made in vain or could have been avoided resulting in fruitless and wasteful expenditure

20. Contrary to section 1 of the MFMA, expenditure incurred was made in vain, and could have been avoided.

The accounting officer did not adhere to his statutory responsibilities

21. Contrary to section 71 of the MFMA, the accounting officer did not submit signed returns on their conditional grant spending.

Expenditure was not paid within the parameters set by the applicable legislation

22. Contrary to the requirements set out in section 65 (2) (e) of the MFMA, the accounting officer did not ensure that payments to suppliers are made within 30 days of receipt of the invoice.

Municipal Structures Act of South Africa, No 117 of 1998 (MSA)

Functions and responsibilities of the district municipality

23. Contrary to section 84(1) of the MSA, the district municipality sold bulk portable water to the local municipalities, which is a function of the district municipality. No ministerial approval was obtained to deviate from the provisions of the MSA.

INTERNAL CONTROL

24. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA and MSA, but not for the purpose of expressing an opinion on the effectiveness of internal control.
25. The matters reported below are limited to the significant deficiencies regarding the basis for the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

- **Leadership**

- *Oversight responsibility*

- The accounting officer does not regularly monitor compliance by management with laws, regulations and internally designed policies and procedures. As a result, significant non-compliance issues were noted. In addition, senior management is not appraised on their effectiveness in implementing and maintaining internal controls in their divisions to ensure compliance.

- **Financial and performance management**

- *Quality, reliable monthly financial statements and management information*

- The financial statements and other information to be included in the annual report are not reviewed for completeness and accuracy prior to submission for audit by the chief financial officer.

- *Adequate systems*

- Adequate systems, manual or automated controls are not designed or implemented to ensure that the transactions have occurred, are authorised, and are completely and accurately processed pertaining to the accounting system.

- **Governance**

- *Adequacy and implementation of internal controls*

- Internal controls are not selected and developed to prevent / detect and correct material misstatements in financial reporting and reporting on predetermined objectives.

Auditor - General
Polokwane

30 November 2010



AUDITOR - GENERAL
SOUTH AFRICA

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