



AUDITOR - GENERAL  
SOUTH AFRICA

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## **AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE NORTH WEST PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE BOJANALA PLATINUM DISTRICT MUNICIPALITY**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Introduction**

1. I have audited the accompanying financial statements of the Bojanala Platinum District Municipality, which comprise the statement of financial position as at 30 June 2010, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on Pages 191 to 217.

#### **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) and the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (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; 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) (PAA), 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.

## Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Bojanala Platinum District Municipality for the year ended 30 June 2010, and its financial performance and its cash flows for the year then ended in accordance with SA Standards of GRAP and in the manner required by the MFMA and DoRA.

## Emphasis of matters

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

### Unauthorised, irregular and fruitless and wasteful expenditure

8. As disclosed in note 22.3 to the financial statements, irregular expenditure of R 7.7 million was incurred due to non-compliance with the municipal supply chain management regulations.

### Material underspending of the budget

9. As disclosed in note 30 to the annual financial statements, the municipality has materially underspent the budget on special projects by R118,7 million. As a consequence, service delivery was affected negatively.

## Additional matter

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

### Unaudited supplementary schedules

10. The supplementary information set out on Pages 132 - 177 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

11. 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 their regulations and financial management (internal control):

- MFMA
- DoRA
- Local Government: Municipal Systems Act of South Africa, 2000 (Act No.32 of 2000) (MSA)
- Municipal Structures Act of South Africa, 1998 (Act No.117 of 1998)

### Predetermined objectives

12. Material findings on the report on predetermined objectives, as set out on pages 132 - 177 are reported below:

### Non-compliance with regulatory requirements

#### Internal auditing of performance measurements

13. The internal audit unit did not audit the results of performance measurement as part of its internal audit processes, as required in terms of section 45 of the MSA.

#### Service delivery budget and implementation plan (SDBIP)

14. The mayor did not ensure that the SDBIP was approved within 28 days after approval of the budget as required by section 53(1)(c) of the MFMA.



### Comparison of performance targets

15. The accounting officer did not include a comparison of performance between the current and previous period in the annual performance report as required by section 46 of the MSA.

### **Usefulness of reported performance information**

16. The following criteria were used to assess the usefulness of the planned and reported performance:
- **Consistency:** Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
  - **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 audit findings relate to the above criteria:

#### Planned and reported indicators/measures not well defined

17. For the selected reported programmes, 18% of the planned and reported measures were not clear, with an unambiguous definition to allow for data to be collected consistently.

#### Planned and reported performance indicators not specific, measurable and time bound

18. For the selected reported programmes, 17% of the planned and reported indicators and 51% of the targets were not:
- specific in clearly identifying the nature and the required level of performance;
  - measurable in identifying the required performance;
  - time bound in specifying the time period or deadline for delivery.

### **Reliability of reported performance information**

19. The following criteria were used to assess the usefulness of the planned and reported performance:
- **Validity:** Has the actual reported performance occurred and does it pertain to the entity i.e. can the reported performance information be traced back to the source data or documentation?
  - **Accuracy:** Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
  - **Completeness:** All actual results and events that should have been recorded have been included in the reported performance information.

The following audit findings relate to the above criteria:

#### Planned and reported indicators/measures not verifiable

20. For the selected reported programmes or objectives, 17% of the planned and reported measures were not verifiable, as it was not possible to adequately validate the processes and systems that produced the indicator.

#### Reported targets not reliable as no/inadequate supporting source information was provided

21. For the selected objectives, 75% of these reported targets, the reliability could not be established as sufficient appropriate audit evidence and relevant source documentation could not be provided for audit purposes.



## **Compliance with laws and regulations**

### **Municipal Finance Management Act, 2003**

Expenditure was incurred in contravention of or not in accordance with applicable legislation, resulting in irregular expenditure

22. Expenditure was not incurred in accordance with the requirements of the supply chain management policy of the municipality, which resulted in irregular expenditure as per the definition of “irregular expenditure” in section 1 of the MFMA.

The financial statements were not prepared in accordance with applicable legislation

23. The municipality did not prepare financial statements in accordance with section 121(1) of the MFMA which fairly presents the state of affairs of the municipality, as corrections of material misstatements were made to the annual financial statements submitted for audit on 31 August 2010.

The internal audit unit was not functioning properly

24. The internal audit unit of the municipality did not fulfil its responsibilities as required by section 165 of the MFMA.

The audit committee was not functioning properly

25. The audit committee did not perform their functions and discharged their mandate adequately as required by section 166 of the MFMA.

### **Local Government: Municipal Systems Act, 2000**

Supply chain management legislation requirements were not adhered to (not resulting in irregular expenditure)

26. Not all council members declared all their business interests, as required by paragraph 7 of schedule 1 of the MSA.

## **Internal control**

27. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with laws and regulations, but not for the purpose of expressing an opinion on the effectiveness of internal control.
28. The matters reported below are limited to the internal control deficiencies that resulted in the findings on the report on predetermined objectives and the findings on compliance with laws and regulations, as listed above.

#### **• Leadership**

The accounting officer does not exercise oversight over reporting and compliance with laws and regulations and internal control.

#### **• Financial and performance management**

The performance management unit is understaffed, which resulted in inadequate record management, thus requested information related to pre-determined objectives was not always available or supplied without significant delay.

#### **• Governance**

The entity does not have a formal risk assessment process as required by the MFMA. Ongoing monitoring and supervision by internal audit was not undertaken to enable an assessment of the effectiveness of internal control over financial and performance reporting. The audit committee did not fulfil its responsibilities as set out in legislation and in accordance with accepted best practice.



Auditor-General.

Rustenburg

30 November 2010



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