

REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND THE COUNCIL ON THE LEJWELEPUTSWA DISTRICT MUNICIPALITY

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

1. I have audited the consolidated and separate financial statements of the Lejweleputswa District Municipality and its subsidiary set out on pages XX to XX, which comprise the consolidated and separate statement of financial position as at 30 June 2014, the consolidated and separate statement of financial performance, statement of changes in net assets, and cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the consolidated and separate financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of the consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these consolidated and separate financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate 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 consolidated and separate 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 consolidated and separate financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Lejweleputswa District Municipality and its subsidiary as at 30 June 2014 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

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

Restatement of corresponding figures

8. As disclosed in note 34 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of errors discovered during 2014 in the financial statements of Lejweleputswa District Municipality at, and for the year ended, 30 June 2013.

Irregular expenditure

9. As disclosed in note 41 to the financial statements, the municipality incurred irregular expenditure of R5 263 137 (2013:R7 199 360) during the year under review due to non-compliance with laws and regulations.

Additional matter

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

Unaudited supplementary schedules

11. The supplementary information set out on pages XX to XX 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

12. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

13. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected programmes presented in the annual performance report of the municipality for the year ended 30 June 2014:
 - Development objective 2: Local economic development on pages x to x – Parent entity
 - Development objective 3: Local economic development on pages x to x – Subsidiary
 - Development objective 6: Safe and healthy environment on pages x to x – Parent entity

14. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
15. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. Material findings in respect of the selected programmes are as follows:

Development objective 2: Local economic development – Parent entity

Reliability of reported performance information

18. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not valid, accurate and complete when compared to the source information or evidence provided. This was due to a lack of standard operating procedures that give guidance on how to accurately record actual achievements, as well as not monitoring the completeness of source documentation in support of actual achievements and not frequently reviewing the validity of reported achievements against source documentation.

Development objective 6: Safety and healthy environment - Parent entity

Reliability of reported performance information

19. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not valid, accurate and complete when compared to the source information or evidence provided. This was due to a lack of standard operating procedures that give guidance on how to accurately record actual achievements, as well as not monitoring the completeness of source documentation in support of actual achievements and not frequently reviewing the validity of reported achievements against source documentation.

Development objective 3: Local economic development - Subsidiary

Usefulness of reported performance information

Consistency

20. Section 121(4)(d) of the MFMA requires the service delivery agreement to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 66% of the reported indicators were not consistent with those in the approved Service Delivery and Budget Implementation Plan (SDBIP). This was mainly because the municipal entity did not appropriately implement policies and procedures to facilitate effective performance planning, monitoring, evaluation and reporting.

Measurability

21. The FMPPI requires that the performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 33% of the indicators were not well defined. This was mainly because the municipal entity did not appropriately implement policies and procedures to facilitate effective performance planning, monitoring, evaluation and reporting.

Reliability of reported performance information

22. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to a lack of standard operating procedures for the accurate recording of actual achievements, recording and monitoring of performance and monitoring of the completeness of source documentation in support of actual achievements.

Additional matter

23. I draw attention to the following matter:

Achievement of planned targets

24. Refer to the annual performance report on pages XX to XX for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected programmes reported in paragraphs XX to XX of this report.

Compliance with legislation

25. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

26. The performance of Lejweleputswa Development Agency against the agreed performance objectives and indicators was not adequately monitored and annually reviewed, as part of the annual budget process, as required by section 93B(b) of the Municipal Systems Act.
27. The municipality did not have effective, efficient and transparent systems of risk management and internal controls, as required by section 62(1)(c)(i) of the MFMA.

Annual report and financial statements

28. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatement of receivables identified by the auditors in the submitted financial statements was subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

29. Reasonable steps were not taken to prevent irregular expenditure as required by section 62(1)(d) of the MFMA.

Revenue management

30. A credit control and debt collection policy was not implemented, as required by section 96(b) of the Municipal Systems Act and section 62(1)(f)(iii) of the MFMA.

Procurement and contract management

31. Some goods and services with a transaction value below R200 000 were procured without obtaining the price quotations required by SCM regulations 17(a) & (c).
32. Some goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).
33. Some quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

Audit committee

34. The audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by the MPPMR 14(4)(a)(iii).

Internal audit

35. The internal audit unit did not function as required by section 165(2) of the MFMA, in that it did not prepare a risk-based audit plan for the financial year under review.
36. The internal audit unit did not audit the performance measurements continuously and submit quarterly reports on their audits to the municipal manager and the audit committee, as required by MPPMR 14(1)(c).

Internal control

37. I considered internal control relevant to my audit of the financial statements, performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the performance report and the findings on compliance with legislation included in this report.

Leadership

38. The municipality did not effectively exercise oversight responsibility of compliance with laws and regulations and performance information. This was a result of the municipality not prioritising compliance and performance matters.

Financial and performance management

39. The municipality did not ensure that the annual financial statements were properly reviewed for accuracy and completeness prior to submission for audit. This resulted in material misstatements being identified in the annual financial statements submitted for audit.

40. Ongoing monitoring over performance and compliance reporting was not effective. This resulted in material findings being identified on performance information and compliance with laws and regulations.

Governance

41. Work performed by the internal audit function was not based on risk assessment and therefore had a limited impact on addressing key weaknesses in performance management and compliance with laws and regulations. This was due to the risk assessment only being conducted in April 2014; therefore, it could not have an impact on the current year's internal controls.

Auditor - General

05 December 2014



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence