

**REPORT OF THE AUDITOR-GENERAL  
TO THE LIMPOPO PROVINCIAL  
LEGISLATURE AND THE COUNCIL ON  
LEPHALALE LOCAL MUNICIPALITY**

**30 November 2011**

# REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE AND THE COUNCIL ON LEPHALALE LOCAL MUNICIPALITY

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I have audited the accompanying financial statements of the Lephalale Local Municipality, which comprise the statement of financial position as at 30 June 2011, 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 the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-General's responsibility

1. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and section 126(3) of MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
2. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. 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.
3. 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.
4. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

### Basis for qualified opinion

#### Irregular expenditure

5. Section 62 (1) (d) of the MFMA requires the accounting officer to take all reasonable steps to ensure that unauthorised, irregular and fruitless and wasteful expenditure is prevented. The entity procured goods and services amounting to R1 285 285 in contravention of the supply chain management requirements. The municipality has not disclosed this amount as irregular expenditure in a note to the financial statement as required by section 125(2)(d) of the MFMA.

### **Cash and cash equivalents**

6. The municipality could not provide sufficient appropriate audit evidence to support a net credit balance of R854 450 included in cash and cash equivalents balance of R136.5 million as disclosed in note 1 to the financial statements. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, valuation and allocation of and rights pertaining to cash and cash equivalents.

### **Qualified opinion**

7. 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 Lephalale Local Municipality as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with the SA standards of GRAP and in the manner required by the MFMA.

### **Emphasis of matters**

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 2010 have been restated as a result of errors discovered during 2011 in the financial statements of the Lephalale Local Municipality at, and for the year ended, 30 June 2010.

### **Material underspending of conditional grants**

9. The municipality has materially underspent its conditional grants. At the date of this report, the municipality has under spent R33.3 million, resulting from delays in the development of a multipurpose community centre and a taxi rank due to disputes between the local communities and the chiefs as to the location of the projects.

### **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 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**

11. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages XX to XX and material non-compliance with laws and regulations applicable to the municipality.

### **Predetermined objectives**

#### **Presentation of information**

12. The reported performance against predetermined objectives was deficient in respect of the following criteria:

- Performance against predetermined objectives was not reported using the National Treasury guidelines.

13. The following audit findings relate to the above criteria:

- The integrated development plan did not include the key performance indicators and performance targets determined in accordance to its performance management system, as required by sections 26(i) and 41(1) (b) of the Municipal Systems Act of South Africa, 2000

(Act No. 32 of 2000) (MSA) and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.

- Explanations for variances between the planned and the actual reported targets for objectives were not provided, as required in terms of the relevant reporting guidance.

### **Usefulness of information**

14. The reported performance information was deficient in respect of the following criteria:

- Consistency: The reported objectives, indicators and targets are not consistent with the approved service delivery and budget implementation plan.

15. The following audit findings relate to the above criteria:

- Reported performance against predetermined targets is not consistent with the approved service delivery and budget implementation plan.

### **Reliability of information**

16. The reported performance information was deficient in respect of the following criteria:

- Validity: The reported performance did not occur and does not pertain to the entity.
- Accuracy: The amounts, numbers and other data relating to reported actual performance have not been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have not been included in the reported performance information.

17. The following audit findings relate to the above criteria:

- Sufficient appropriate evidence in relation to the objective - Infrastructure Service, could not be obtained. There were no satisfactory audit procedures that I could perform to obtain the required assurance as to the validity, accuracy and completeness of the reported performance against predetermined objectives.

### **Compliance with laws and regulations**

#### **Strategic planning and performance management**

18. The accounting officer of the municipality did not by 25 January 2011 assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan as required by section 72(1)(a)(ii) of the MFMA.

19. The accounting officer of the municipality did not submit the results of the assessment on the performance of the municipality during the first half of the financial year to the National Treasury and the provincial treasury as required by section 72(1)(b) of the MFMA.

#### **Annual financial statements, performance and annual report**

20. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. Material misstatements of property, plant and equipment, inventory and revaluation reserve identified by the auditors were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

21. The performance report for the financial year under review was not prepared as required by section 46 of the Municipal Systems Act (MSA) and section 121(3)(c) of the MFMA.

## **Audit committee**

22. The audit committee did not advise the council of the municipality on the adequacy, reliability and accuracy of financial reporting and information as required by section 166(2)(a)(iv) of the MFMA.
23. The audit committee did not advise the municipal council, the political office bearers, the accounting officer and the management staff of the municipality on matters relating to compliance with the MFMA, the Division of Revenue Act and other applicable legislation as required by section 166(2)(a) of the MFMA.

## **Internal audit**

24. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes as required by section 45(1)(a) of the MSA and Municipal Planning and Performance Management Regulation 14.

## **Procurement and contract management**

25. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) and (c).
26. Bid specifications were not always drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).

## **Expenditure management**

27. The accounting officer did not take reasonable steps to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

## **INTERNAL CONTROL**

28. In accordance with the PAA and in terms of General notice 1111 of 2010, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

- **Leadership**

The accounting officer did not, in some instance, exercise oversight responsibility over compliance with laws and regulations as well as reporting on predetermined objectives.

The municipality's supply chain management policy does not comply with the minimum requirements set out in the supply chain management regulations.

- **Financial and performance management**

The financial statements and the report on predetermined objectives have not been adequately reviewed for completeness and accuracy prior to submission for audit.

Periodic reconciliations of suspense accounts are not performed to ensure transactions did occur and are completely and accurately processed.

- **Governance**

Internal audit did not fulfil its responsibilities in all instances by auditing the procurement of goods and services and performance information as part of its internal audit processes.

The audit committee did not fulfil its responsibilities as set out in legislation and in accordance with accepted best practice.

*Auditor-General*  
Polokwane

30 November 2011



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SOUTH AFRICA

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