



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

**Auditor's report of the Auditor-General to
the Gauteng Provincial Legislature on the
Lesedi Local Municipality for the year
ended 30 June 2012**



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The reputation promise of the Auditor-General

“The Auditor-General has a constitutional mandate and, as the Supreme Audit Institution (SAI) of South Africa, it exists to strengthen our country’s democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.”

The mission statement informs the content of the Public Audit Manual (PAM) by recognising that the audits conducted by the SAI of South Africa are unique due to its mandate. This mandate includes responsibilities in terms of laws or regulations that go beyond generally accepted practice of the auditor's responsibilities in the audit of the financial statements.

These responsibilities include: consideration of issues such as public interest; accountability; probity; effective legislative oversight, in particular as concerns compliance with law, regulation or other authority; performance against pre-determined objectives; and economic, efficient, and effective procurement of resources.

The ultimate goal of the audits is to strengthen the South African democracy.



AUDITOR - GENERAL
SOUTH AFRICA

Mr. Ayanda Makhanya
Accounting Officer
Lesedi Local Municipality
C/o HF Verwoerd & Louw Streets
Heidelberg
1438

Date 30 November 2012

Reference: TS 9819611

Dear Mr Makhaya

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Lesedi Local Municipality for the year ended 30 June 2012

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa [section 121(3) of the Municipal Finance Management Act of South Africa (MFMA)]
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) you are required to include the audit report in the Lesedi Local Municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in

the hard copy that is provided to you. The official logo will be made available to you in electronic format.

6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed



Senior Manager: Gauteng

Enquiries: Nokukhanya Vilakazi
Telephone: (011) 703 7814
Fax: (011) 703 7690

REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND THE COUNCIL OF THE LESEDI LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Lesedi Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

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) 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.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these 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 financial statements are free from material misstatement.
4. 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.
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 financial statements present fairly, in all material respects, the financial position of the Lesedi Local Municipality as at 30 June 2012, 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.

Emphasis of matters

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

Significant uncertainties

8. With reference to note 37 to the financial statements, the municipality is the defendant in various court cases. The ultimate outcome of these matters cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

9. As disclosed in note 51 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of various errors discovered during the year ended 30 June 2012.

Material losses

10. As disclosed in note 47 to the financial statements, the municipality incurred material water losses with a value of R7 681 007 (2011: R5 163 698) during the year under review which represents a loss of 23% (2011: 19.4%).
11. As disclosed in note 47 to the financial statements, the municipality incurred material electricity losses with a value of R31 474 238 (2011: R16 716 215) during the year under review which represents a loss of 21.2% (2011: 14.2%). Included in the electricity losses are technical losses of 5.6% (2011: 5.6%) and non-technical losses of 15.6% (2011: 8.6%).

Material impairments

12. As disclosed in note 11 to the financial statements, consumer debtors totalling R218 747 780 (2011: R188 794 268) have a provision for debt impairment of R170 545 202 (2011: R142 837 043) which represents 78% (2011: 76%) of the balance. The contribution to the provision for debt impairment during the year under review was R38 030 483 (2011: R26 696 721).

Additional matters

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

Unaudited supplementary schedules

14. 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

15. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages xx to xx of the annual report.
17. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

18. The material findings are as follows:

Usefulness of information

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

- Consistency: Objectives, indicators and targets are consistent between planning and reporting documents as required by the National Treasury Regulations.
- Measurability: Indicators are well defined and verifiable, and targets are specific, measurable and time bound, as required by the National Treasury *Framework for managing programme performance information*.

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

Reported indicators and targets not consistent with planned indicators and targets

21. The Municipal Systems Act, section 41(c) requires that the integrated development plan should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 45% of the reported indicators and 100% of the reported targets are not consistent with the indicators and targets as per the approved service delivery agreement. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not receive the necessary training to enable application of the principles.

Performance targets not specific

22. The National Treasury *Framework for managing programme performance information (FMPPI)* requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 100% of the targets relevant to basic service delivery and local economic development were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not receive the necessary training to enable application of the principles.

Performance indicators not measurable

23. The National Treasury *Framework for managing programme performance information (FMPPI)* requires that performance targets be measurable. The required performance could not be measured for a total of 100% of the targets relevant to basic service delivery and local economic development. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not receive the necessary training to enable application of the principles.

Performance targets not time bound

24. The National Treasury *Framework for managing programme performance information (FMPPI)* requires that the time period or deadline for delivery be specified. A total of 100% of the targets relevant to basic service delivery and local economic development were not time bound in specifying a time period or deadline for delivery. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not receive the necessary training to enable application of the principles.

Performance indicators not well defined

25. The National Treasury *Framework for managing programme performance information (FMPPi)* requires that indicators/measures should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 54% of the indicators relevant to basic service delivery and local economic development were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was aware of the requirements of the *FMPPi* but did not receive the necessary training to enable application of the principles.

Reliability of information

26. The reported performance information was deficient in respect of the following criteria:
- Validity: Reported performance has occurred and relates to the institution.
 - Accuracy: Amounts, numbers and other data relating to reported performance have been recorded and reported correctly.
 - Completeness: All actual performance that should have been recorded has been included in the reported performance information.
27. The following audit findings relate to the above criteria:

Reported performance not valid

28. The National Treasury *Framework for managing programme performance information (FMPPi)* requires that processes and systems which produce the indicator should be verifiable. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the validity of the actual reported performance relevant to 21% of basic service delivery and local economic development. This was due to limitations placed on the scope of my work due to the absence of information.

Reported performance not accurate

29. The National Treasury *Framework for managing programme performance information (FMPPi)* requires that the indicator be accurate enough for its intended use and respond to changes in the level of performance. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the accuracy of the actual reported performance relevant to 21% of basic service delivery and local economic development. This was due to limitations placed on the scope of my work due to the absence of information.

Reported performance not complete

30. The National Treasury *Framework for managing programme performance information (FMPPi)* requires that documentation addressing the systems and processes for identifying, collecting, collating, verifying and storing information be properly maintained. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the completeness of the actual reported performance relevant to 21% of basic service delivery and local economic development. This was due to limitations placed on the scope of my work due to the absence of information.

Compliance with laws and regulations

31. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Annual financial statements, performance and annual report

32. 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 misstatements of assets, receivables, financial liabilities, distribution losses and payables identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Audit committee

27. The audit committee was not constituted, as required by section 166(4)(a) of the MFMA as meetings were held without a quorum.
28. The audit committee did not review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the municipality, its efficiency and effectiveness and its overall level of compliance with the MFMA, DoRA and other applicable legislation, as required by section 166(2)(b) of the MFMA.

Procurement and contract management

33. Awards were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).
34. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were only awarded to providers whose tax matters have been declared by the South African Revenue Service to be in order as required by SCM regulation 43.

Expenditure management

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

Internal control

36. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for the findings on compliance with laws and regulations included in this report.

Leadership

37. The accounting officer did not exercise adequate oversight to ensure compliance with all laws and regulations, and more specifically with regards to compliance with the MFMA and supply chain prescripts determined by the National Treasury.
38. The municipality did not have sufficient monitoring controls to ensure the proper implementation of the overall process for planning and reporting on achievements against the predetermined objectives.

Financial and performance management

39. The financial statements were not adequately reviewed for completeness and accuracy prior to their submission for audit as they were subjected to material amendments.

Governance

40. The audit committee did not meet prior to the submission of the financial statements and annual performance report for auditing on 31 August to review the adequacy, reliability and accuracy of the financial statements and annual performance report.

Auditor-General

Johannesburg

29 November 2012



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