

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 financial statements of the Lephalale Local Municipality set out on pages xx to xx, 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) and the Division of Revenue Act, 2011 (Act No. 6 of 2011) (DoRA), and 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 qualified audit opinion.

Basis for qualified opinion

Property, plant and equipment

6. The municipality did not review the residual values and useful lives of assets and test for impairment at each reporting date in accordance with SA Standards of GRAP 17, *Property, plant and equipment*. Items of property, plant and equipment with a gross carrying amount of R3 263 738 are included in the financial statements at a zero and one rand net carrying

amount whilst still being in use. I have not determined the correct net carrying amount of items of property, plant and equipment, stated at R938 319 315 in the financial statements, as it was impracticable to do so.

Defined benefit plan obligation

7. The municipality engaged the services of an expert to determine the post retirement medical aid benefit and long service awards. The municipality provided incorrect data to the expert to determine the value of the obligations. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the valuation of the post retirement medical aid benefit and long service awards of R26 626 942 and R3 199 681, respectively, as disclosed in note 41 to the financial statements.

Qualified opinion

8. 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 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 and the DoRA.

Emphasis of matter

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

Material underspending of the conditional grants

10. As disclosed in note 15 to the financial statements, the municipality has materially underspent its conditional grants to the amount of R28 479 099. This underspending relates to mainly the municipal infrastructure grant.

Additional matter

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

Unaudited supplementary schedules

12. 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

13. 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

14. I performed procedures to obtain evidence about the usefulness and reliability of the information in the performance report as set out on pages XX to XX of the annual report.
15. 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's 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 (FMPPi)*.

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).

16. The material findings are as follows:

Usefulness of information

Presentation

Measures taken to improve performance not supported by sufficient appropriate evidence

17. Section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires the disclosure of measures taken to improve performance in the annual performance report where planned targets were not achieved. Adequate and reliable corroborating evidence could not be provided for all (100%) measures taken to improve performance as disclosed in the annual performance report. This was due to limitations placed on the scope of my work by the municipality. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the validity, accuracy and completeness of the measures taken to improve performance.

Reliability of information

Validity

Reported performance not valid

18. The National Treasury *FMPPi* requires that processes and systems which produce the indicator should be verifiable. A total of 41% of the actual reported performance relevant to the selected development priorities and objectives was not valid when compared to the source information and evidence provided. This was due to a lack of monitoring for the recording of actual achievements by the accounting officer, senior management and internal audit.

Accuracy

Reported performance not accurate

19. The National Treasury *FMPPi* requires that the indicator be accurate enough for its intended use and respond to changes in the level of performance. A total of 67% of the actual reported indicators relevant to development priorities and objectives for governance and administration, community and public safety and trading services were not accurate when compared to source information. This was due to a lack of monitoring for the recording of actual achievements by the accounting officer, senior management and internal audit.

Completeness

Source information supporting actual performance not complete

20. The National Treasury *FMPP* requires that documentation addressing the systems and processes for identifying, collecting, collating, verifying and storing information be properly maintained. Source information for 41% of the actual reported performance, for the selected development priorities and objectives, was not completely recorded. This was due to an improper document management system with regard to actual performance achievements and a lack of monitoring of the recording of actual achievements by the accounting officer, senior management and internal audit

Additional matter

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

Achievement of planned targets

22. Of the total number of 203 targets planned, only 149 were achieved during the year under review. This represents 74% of total planned targets that were not achieved during the year under review.

This was mainly due to fact that the indicators and targets were not suitably developed during the strategic planning process and a lack of monitoring for the recording of actual achievements by the accounting officer, senior management and internal audit.

Compliance with laws and regulations

23. 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:

Audit committee

24. The audit committee did not advise the council and political office bearers on matters relating to internal financial control and internal audits, risk management, accounting policies, effective governance, performance management and performance evaluation as required by section 166(2)(a) of the MFMA.
25. The audit committee did not advise the council and political office bearers on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.
26. The audit committee did not advise the council and political office bearers on matters relating to compliance with the MFMA, and DoRA, as required by section 166(2)(a)(vii) of the MFMA.
27. 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 and DoRA, as required by section 166(2)(b) of the MFMA.

28. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.
29. The audit committee did not review all the quarterly internal audit reports on performance measurement, as required by Municipal Planning and Performance Management Regulation 14(4)(a)(i).
30. 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 Municipal Planning and Performance Management Regulation 14(4)(a)(iii).

Procurement and contract management

31. The prospective providers list for procuring goods and services through quotations was not updated at least quarterly to include new suppliers that qualify for listing, and prospective providers were not invited to apply for such listing at least once a year as per the requirements of SCM regulation 14(1)(a)(ii) and 14(2).

Internal control

32. 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 qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

- The municipality did not have sufficient monitoring controls to ensure the proper implementation of the overall performance management system process of reporting.
- The accounting officer and the council did not exercise oversight responsibilities in relation to promoting the audit committee as an independent advisory body for strengthening internal controls.

Financial and performance management

- The municipality did not have a proper system of record management that provides for the maintenance of information that supports the reported performance contained in the annual performance report.
- The municipality did not have internal control processes for the annual review assessment of the useful lives and residual value of items of property, plant and equipment.
- Monitoring controls have not been established to ensure correct data is provided to the management expert to prepare accurate and reliable financial information.
- The annual performance report was not supported and evidenced by reliable information. This was mainly due to staff members not fully understanding the performance information requirements.

Governance

- The audit committee did not provide oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.
- The accounting officer, council and audit committee have not established a baseline for ongoing and separate evaluations by the audit committee of internal controls in the municipality.

OTHER REPORTS

Investigations

33. An investigation is being conducted by the Public Protector into allegations of tender improprieties involving the awarding of tenders to companies. The investigation was still ongoing at the reporting date.
34. A forensic investigation is being conducted, by an independent firm into an infringement into the municipal bank account. The investigation was still ongoing at the reporting date.

Auditor-General

Polokwane

30 November 2012



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence