

# REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND COUNCIL ON THE THABO MOFUTSANYANA DISTRICT MUNICIPALITY

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I have audited the financial statements of the Thabo Mofutsanyana District Municipality set out on pages 1 to 66, 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 the financial statements in accordance with South African Standards on Generally Recognised Accounting Practice (SA Standards on 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, 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 the 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 municipality'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 Thabo Mofutsanyana District 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 DoRA.

### Emphasis of matters

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

### Significant uncertainties

8. As disclosed in note 23 to the financial statements, the municipality is the defendant in a levy rate dispute. The municipality has appealed against the first ruling which was in favour of the levy payers. The final outcome of the matter cannot currently be determined and the

receivables from non-exchange transactions amounting to R49 079 862, as disclosed in note 5 to the financial statements, have been impaired accordingly.

### **Restatement of corresponding figures**

9. As disclosed in note 37 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of errors discovered during the 2011/12 financial year in the financial statements of the Thabo Mofutsanyana District Municipality at, and for the year ended, 30 June 2011.

### **Irregular expenditure**

10. The full extent of irregular expenditure of R43 497 045, as disclosed in note 31 to the financial statements, is still in the process of being investigated.

### **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 67 to X73 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.

#### **Predetermines objectives**

14. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance information report as set out on pages xxx to xxx 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 annual reporting principles and whether the reported performance is consistent with the planned development 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 development priorities is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

16. There were no material findings on the annual performance information report concerning the usefulness and reliability of the information.

#### **Additional matters**

17. Although no material findings, concerning the usefulness and reliability of the performance information were identified in the annual performance information report, I draw attention to the following matter below.

## **Achievement of planned targets**

18. Of the total number of planned targets, only 87 were achieved during the year under review. This represents 24% (27) of total planned targets that were not achieved during the year under review. This was mainly due to the fact that key performance indicators and targets were not suitably developed during the strategic planning process.

## **Compliance with laws and regulations**

19. I performed procedures to obtain evidence that the municipality 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**

20. 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 non-current assets, current assets, liabilities, expenditure, revenue and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.
21. The accounting officer did not make public the council's oversight report on the 2010/11 annual report within seven days of its adoption, as required by section 129(3) of the MFMA.

## **Conditional grants**

22. The municipality did not comply with the preparations for the next financial year and the 2013-14 financial year as required by section 26 of DoRA in that, projects to be funded from the conditional grant allocations were not agreed to each category B municipality within its area of jurisdiction by 3 October 2011, the projects to be funded from the allocations for the next financial year and 2013-14 financial year were not submitted to the national transferring officer, and the final allocations were not submitted to the National Treasury by 7 December 2011.
23. The municipality did not submit the evaluation to the transferring national officer within two months after the end of the financial year, as required by section 12(6) of the DoRA.

## **Budget**

24. Quarterly reports were not submitted to the council on the implementation of the budget and the financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.

## **HR management**

25. The competencies of financial and supply chain management officials were not assessed promptly in order to identify and address gaps in competency levels as required by the Municipal Regulations on Minimum Competency Levels, regulation 13.
26. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and the relevant provincial treasury as required by the Municipal Regulations on Minimum Competency Levels, regulation 14(2)(a).
27. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies as required by the Municipal Regulations on Minimum Competency Levels, regulation 14(2)(b).

## **Audit committee**

28. A performance audit committee was not in place and the audit committee established in terms of section 166(1) of the MFMA was not used for this function, as required by Municipal Planning and Performance Management Regulation 14(2)(a).

#### **Internal audit**

29. The internal audit unit did not audit the results of performance measurements, as required by section 45(1)(a) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) and Municipal Planning and Performance Management Regulation 14(1)(a).
30. The internal audit unit did not assess the functionality of the performance management system, whether the performance management system complied with the requirements of the MSA and the extent to which the performance measurements were reliable in measuring the performance of the municipality on key and general performance indicators, as required by Municipal Planning and Performance Management Regulation 14(1)(b) (i)(ii)(iii).
31. The internal audit unit did not audit the performance measurements on a continuous basis and did not submit quarterly reports on their audits to the municipal manager and the performance audit committee, as required by Municipal Planning and Performance Management Regulation 14(1)(c).

#### **Procurement and contract management**

32. Quotations were accepted from prospective providers who are not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of SCM regulations 16(b) and 17(b).
33. Quotations were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.
34. Contracts and 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).

#### **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 information 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 findings on compliance with laws and regulations included in this report.

#### **Leadership**

37. The accounting officer did not exercise oversight responsibility regarding compliance with laws and regulations and related internal controls. This was due to a lack of a proper compliance evaluation system, resulting in non-compliance and irregular expenditure that could have been prevented.

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

38. Management did not develop and implement a system of review and monitoring of compliance with laws and regulations. This resulted in significant non-compliance issues and irregular expenditure that could have been prevented.

39. The financial statements were subjected to material corrections resulting from the audit process, which are attributable to weaknesses in the design and implementation of internal control in respect of financial management and financial reporting and weaknesses in the information systems of the municipality.

#### **Governance**

40. Management did not prioritise the appointment of the risk management officer, consequently management did not implement appropriate risk management activities to ensure that regular risk assessments, including fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.

41. Management did not ensure that there is an adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective action due to lack of funding in financing the vacant positions.

42. The council did not ensure that a performance audit committee is in place or that the established auditcommittee function as the performance audit committee to serve as an oversight function with regard to performance management.

Bloemfontein

30 November 2012



**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*