



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

**Auditor's report of the Auditor-General to
the Gauteng Provincial Legislature and the
Council of the Lesedi Local Municipality for
the year ended 30 June 2013**



The Municipal Manager
Mr. Ayanda Makhanya
Lesedi Local Municipality
c/o HF Verwoerd and Louw Streets
Heidleberg,
1436

30 November 2013

Reference: 02214REG12-13

Dear Sir

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 2013

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(4) of the MFMA you are required to include the audit report in the 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



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Melissa Mc Carthy
Senior Manager: Gauteng

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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 Lesedi Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets, the cash flow statement, the statement of comparison of budget and actual amounts 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 Companies Act of South Africa, 2008 (Act No. 71 of 2008), 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 2001) (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 2013, and its financial performance, statement of changes in net assets, the cash flow statement, the statement of comparison of budget and actual amounts and the notes 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 42 of the financial statements, the municipality is a defendant in various court cases and disputes. The ultimate outcome of these matters cannot presently be determined or reliably measured, and as such no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

9. As disclosed in note 44 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of various errors discovered during the year ended 30 June 2013.

Material losses

10. As disclosed in note 58 to the financial statements, material losses amounting to R6 472 464 (2012: R7 681 007) were incurred as a result of water distribution losses, which represent 20.27% (2012: 23%) of total water available for sale.
11. As disclosed in note 58 to the financial statements, material losses amounting to R30 299 367 (2012: R31 474 238) were incurred as a result of electricity distribution losses which represent 20% (2012: 21.20%) of total electricity available for sale. The total technical losses of electricity amounted to R1 696 765 (2012: R1 762 557). Non-technical losses amounted to R28 602 602 (2012: R29 711 681) and are due to theft, tampering and faulty meters.

Material Impairments

12. As disclosed in note 12 to the financial statements, consumer debtors totalling R282 019 593 (2012: R216 796 086) have a provision for debt impairment of R239 246 256 (2012: R170 545 202), this represents 85% (2012: 79%) of the balance. The contribution to the provision for debt impairment during the year under review was R78 181 088 (2012: R38 030 483).

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).

Usefulness of information

18. The material findings are as follows:

Presentation

Measures taken to improve performance not disclosed

19. Section 46 of the Municipal Systems Act requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Measures to improve performance for a total of 100% of the planned targets not achieved were not reflected in the annual performance report. 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.

Consistency

Reported indicators and targets not consistent with planned indicators and targets

20. 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 67% of the reported indicators and 82% of the reported targets are not consistent with the indicators and targets as per the approved Service Delivery and Budget Implementation Plan. 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.

Measurability

Performance targets not specific

21. The FMPPI requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 32% of the targets relevant to basic service delivery, community service 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

22. The FMPPI requires that performance targets be measurable. The required performance could not be measured for a total of 32% of the targets relevant to basic service delivery,

community service and local economic development. This was due to the fact that was 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

23. The FMPPI requires that the time period or deadline for delivery be specified. A total of 40% of the targets relevant to basic service delivery, community service and local economic development were not time bound in specifying a time period or deadline for delivery. This was due to the fact that was 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

24. The FMPPI requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 30% of the indicators relevant to basic service delivery, community service 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 was 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 verifiable

25. The FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. A total of 30% of the indicators were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the lack of key controls in the relevant systems of verification.

Reliability of information

Reported performance not reliable

26. Significantly important targets with respect to the basic service delivery, community service and local economic development are not reliable. This was due to the lack of standard operating procedures for the accurate recording of actual achievements.

Compliance with laws and regulations

27. 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

28. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of account balances items relating to payables and receivables identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion

Internal control

29. 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

30. The municipal entity did not comply with the National Treasury *Framework for managing programme performance information (FMPPi)* to ensure the proper implementation of the overall process for planning and reporting on achievements against the predetermined objectives. This was due to the fact that management was not aware of the requirements of *FMPPi*.

Financial and performance management

31. The statements were subjected to material amendments resulting from the audit as a result of inadequate review for completeness and accuracy prior to submission for audit.

Auditor-General

Johannesburg

30 November 2013



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