

Munisipaliteit
Municipality

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on 08/01/2014.

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Ons Verw/Our Ref
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Navrae/Enquiries

NC LEKAKA

Aandag/Attention

07 January 2014

The Chief Director
National Treasury
PRIVATE BAG X 115
PRETORIA
0001

Dear Sir / Madam

RE: SUBMISSION OF AUDIT REPORT 2012/2013

Kindly receive the attached audit report from Lephalale Municipality for 2012/2013 financial year.

Hope you find the above in order

Yours Faithfully


AS NAIDOO
MUNICIPAL MANAGER



CF-0

AUDITOR-GENERAL
SOUTH AFRICA

The accounting officer
Lephalale Municipality
Private Bag X136
Onverwacht
Lephalale
0557

30 November 2012

Reference: 07324REG12/13

Dear Sir

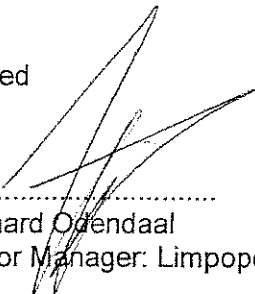
Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Lephalale Municipality for the year ended 30 June 2013

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. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
3. 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.
4. 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.
5. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
6. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed



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Gerhard Odendaal
Senior Manager: Limpopo

Enquiries: Gerhard Odendaal
Telephone: (015) 283 9347
Fax: (015) 283 9400

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Lephalale Municipality set out on pages X 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 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 the 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 Division of Revenue Act, 2012 (Act No. 5 of 2012) (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 of qualified opinion

Non-current borrowings

6. I was unable to obtain sufficient appropriate audit evidence that management has properly recognised and measured non-current borrowings. I was unable to confirm the non-current borrowings by alternative means. Consequently, I was unable to determine whether any adjustment to infrastructure assets and non-current borrowings stated at R928 101 976 and R94 957 349, respectively, in the financial statements were necessary.

Trade and other receivables from exchange transactions and other receivables from non-exchange transactions

7. The municipality did not assess whether objective evidence of impairment exists individually for receivables that are individually significant, as required by SA Standards of GRAP 104, *Financial Instruments*. I have not determined the correct amount of the impairment as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to trade and other receivables from exchange transactions and other receivables from non-exchange transactions stated at R78 815 201 and R25 179 628, respectively, in the financial statements were necessary.

Property, plant and equipment

8. During 2012 I reported that 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*. The municipality made a prior year net adjustment of R54 779 527 in the current year under review. I was unable to obtain sufficient appropriate audit evidence for the adjustment. I was unable to confirm the adjustment by alternative means. Consequently, I was unable to determine whether any adjustment to community assets and other assets stated at R27 149 808 (2012: R27 022 247) and R44 661 645 (2012: R40 134 106), respectively, in the financial statements were necessary. Additionally, there is a consequential impact on the surplus for the period and the accumulated surplus.
9. Section 84(1)(f) of the Municipal Structures Act, 1998 (Act No. 117 of 1998) states that the district municipality has the powers and function with regards to municipal roads which form an integral part of a road transport system for the area of the district municipality as a whole. I identified the municipality recognised in instances district and provincial roads as assets. I was unable to obtain sufficient appropriate audit evidence that management has properly accounted for all roads as the municipality did not have systems and procedures in place to assess the rights and ownership thereof. I was unable to confirm the roads infrastructure by alternative means. Consequently, I was unable to determine whether any adjustment to infrastructure assets stated at R928 101 976 (2012: R852 844 183) in the financial statements were necessary.

Contingent liability

10. The municipality has not disclosed a contingent liability in note 42 to the financial statements in respect of the uncertainties arising from the dispute declared by the unions and the pending litigation regarding the wage curve agreement.

Qualified opinion

11. In my opinion, except for the possible 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 Municipality as at 30 June 2013, 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

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

Significant uncertainty

13. With reference to note 42 to the financial statements, the municipality is the defendant in several claims. 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.

Irregular expenditure

14. As disclosed in note 38.3 to the financial statements, the municipality incurred irregular expenditure amounting to R22 371 541, due to contravention of the supply chain management policy.

Unauthorised expenditure

15. As disclosed in note 38.1 to the financial statements, the municipality incurred unauthorised expenditure of R6 898 598, mainly due to the overspending of two votes within the budget.

Material underspending of the conditional grants

16. As disclosed in note 15 to the financial statements, the municipality has materially under spent its conditional grants to the amount of R39 805 452. The underspending relates to poor planning, human capacity constraints and delays in the tender processes on capital projects. Due to the economic growth point of the municipal area, the developments were mostly performed by the private sector. The allocated grants were not in all instances used, as a consequence the municipality has not achieved its objectives of rendering quality services to the community.

Additional matter

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

Unaudited supplementary schedules

18. 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

19. 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

20. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages X to X of the annual report.
21. 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)*.
22. The reliability of the information in respect of the selected programmes is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
23. The material findings are as follows:

Usefulness of information

Presentation

Measures taken to improve performance not supported by sufficient appropriate evidence

24. Section 46 of the Municipal System Act of South Africa, 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 67% of measures taken to improve performance as disclosed in the annual performance report. The municipality records did not permit the application of alternative audit procedures and this was due to limitations placed on the scope of my work.

Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the reliability of the measures taken to improve performance.

Measurability

Performance indicators not well defined

25. 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 100% of the indicators 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 chose not to apply the principles contained in the *FMPPI*.

Reliability of information

Reported performance not reliable

26. The *FMPPI* requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

Significantly important targets with respect to development priority: Refuse, development priority: Sanitation, development priority: Water and development priority: Electricity are materially misstated.

This was due to the lack of frequent review of validity of reported achievements against source documentation.

Additional matter

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

Achievement of planned targets

28. Of the total number of 43 targets planned for the year, 24 targets were not achieved during the year under review. This represents 56% of total planned targets that were not achieved during the year under review.

This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process.

Compliance with laws and regulations

29. 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 reports

30. 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, net assets and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Audit committee

31. The audit committee did not advise the council on matters relating to internal financial control, internal audit, effective governance, performance management and performance evaluation, as required by section 166(2)(a) of the MFMA
32. The audit committee did not advise the council 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.
33. The audit committee did not advise the council and accounting officer on matters relating to compliance with legislation, as required by section 166(2)(a)(vii) of the MFMA.

Internal audit

34. The internal audit unit did not function as required by section 165(2) of the MFMA, in that it did not advise the accounting officer and report to the audit committee on matters relating to all matters of internal controls, accounting procedures and practices, risk management.
35. The internal audit unit did not advise the accounting officer and report to the audit committee on matters relating to compliance with the MFMA, the DoRA and other applicable legislation, as required by section 165(2)(b)(vii) of the MFMA.

Procurement and contract management

36. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by Supply Chain Management (SCM) regulation 17(a) and (c).
37. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive.
38. Contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) (PPPFA).
39. Contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of SCM Regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.
40. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the PPPFA and its regulations.

41. 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)
42. Contracts 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.
43. Awards were made to providers who are in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulations 44.

Expenditure management

44. Reasonable steps were not taken to prevent unauthorised and irregular expenditure, as required by section 62(1)(d) of the MFMA

Asset management

45. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Consequences management

46. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.

Internal control

47. 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 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 and management did not exercise adequate oversight responsibility over the enforcement of the municipality's SCM policy.
- 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 financial statements for loans, property, plant and equipment and impairment on receivables as well as reported performance information.
- The financial statements contained misstatements that were corrected. This was mainly due to staff members not fully understanding the requirements of the financial reporting framework and inadequate review over the preparation of the financial statements.
- The municipality's preventive internal controls over procurement of goods and services did not identify contraventions to the municipality's SCM policy.

Governance

- The internal audit unit did not in all instance performed its functions as required by legislation.
- 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.

OTHER REPORTS

Investigations

48. 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.
49. 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.
50. An investigation is being conducted by an independent firm into the irregular awarding of tenders and irregular payments to suppliers. The investigation was still ongoing at the reporting date.

Auditor-General.

Polokwane

30 November 2013



AUDITOR-GENERAL
SOUTH AFRICA

Working to build public confidence