

Report of the auditor-general to the Free State provincial legislature and the council on Tswelopele Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Tswelopele Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as 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 of South Africa, 2014 (Act No. 10 of 2014) (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 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 municipality'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 Tswelopele Local Municipality as at 30 June 2015 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.

Restatement of corresponding figures

8. As disclosed in note 41 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of an error discovered during 30 June 2015 in the financial statements of the Tswelopele Local Municipality at, and for the year ended 30 June 2014.

Irregular expenditure

9. As disclosed in note 46 to the financial statements, the municipality incurred irregular expenditure of R11 178 835 (2013: R1 520 952) during the year under review due to non-compliance with supply chain management processes. In addition, the full extent of irregular expenditure is still in the process of being determined.

Material losses and impairments

10. As disclosed in note 4 to the financial statements, a provision for impairment of debtors amounting to R40 638 494 (2014: R41 390 913) has been made with regard to consumer debts amounting to R44 743 024 (2014: R43 021 424).
11. As disclosed in note xx to the financial statements, losses amounting to 29% and 13% for electricity and water respectively were incurred as a result of distribution losses.

Report on other legal and regulatory requirements

12. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

13. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2015:
 - Key performance area 2: Basic services and infrastructure development
14. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
15. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. I did not identify material findings on the usefulness and reliability of the reported performance information for the following key performance areas:
 - Key performance area 2: Basic services and infrastructure development

Additional matter

18. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected key performance areas, I draw attention to the following matter:

Achievement of planned targets

19. Refer to the annual performance report on page(s) x to x and x to x for information on the achievement of the planned targets for the year.

Compliance with legislation

20. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

21. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance planning and how it is conducted, organised and managed, as required by sections 38 of the MSA and regulation 7 of the Municipal Planning and Performance Management Regulations.
[Ex.61]

Financial statements, performance and annual reports

22. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. Material misstatements of non-current assets and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion. [Ex.24] [Ex.32] [Ex.33] [Ex.46] [Ex.62]

Expenditure management

23. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure as well as fruitless and wasteful expenditure, as required by section 62(1) (d) of the Municipal Finance Management Act. [EX33] [Ex.46]

Transfer of funds

24. The Municipal Infrastructure Grant allocation was not spent in accordance with the applicable grant framework, in contravention of section 17(1) of the Division of Revenue Act. [Ex.46]

Asset and liability management

25. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the Municipal Finance Management Act. [Ex.11]
26. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the Municipal Finance Management Act. [Ex.29]

Procurement and contract management

27. The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1) (a). [EX33]
28. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) & (c). [Ex.34]

Internal control

29. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

Leadership

30. Management needs to ensure that the organisational structure is updated and all the critical positions are filled as a matter of urgency. The municipality risks not maintaining its unqualified audit opinion if this matter is not attended to.

Financial and performance management

31. There are still material adjustments being made to the financial statements. Management should ensure that adequate reviews are performed on the annual financial statements. Compliance checklists should also be implemented in order to ensure that compliance to legislation is monitored on a regular basis.

[Sign as 'Auditor-General']

Place of signing

Date of signing



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