

REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF TSWELOPELE LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2008

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Tswelopele Local Municipality which comprise the balance sheet as at 30 June 2008, income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages xx to xx.

Responsibility of the accounting officer for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with IMFO and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) and the Division of Revenue Act, 2007 (Act No. 1 of 2007 DORA). This responsibility includes:
 - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
 - selecting and applying appropriate accounting policies
 - making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on whether the financial statements are free from material misstatement.
5. 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.

6. An audit also includes evaluating the:
- appropriateness of accounting policies used
 - reasonableness of accounting estimates made by management
 - overall presentation of the financial statements.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

8. The municipality's policy is to prepare financial statements based on standards laid down by the Institute of Municipal Treasurers and Accountants in its code of practice for local government accounting (1997) and the published annual financial statements for local authorities (second edition 1996 as amended), as set out in accounting policy note 1.1.

Unqualified opinion

9. In my opinion, the financial statements present fairly, in all material respects, the financial position of Tswelopele Local Municipality as at 30 June 2008 and its financial performance and cash flows for the year then ended, in accordance with the entity-specific basis of accounting as set out in the accounting policy note 1.1 to the financial statements and in the manner required by the MFMA and DoRA.

OTHER IMPORTANT MATTERS

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Non-compliance with applicable legislation

Municipal Finance Management Act, 2003 (Act No. 56 of 2003)

10. Contrary to section 9(b) of the MFMA, the accounting officer did not submit the name of each bank where the municipality holds a bank account, and the type and number of each account to both the provincial treasury and the Auditor-General.
11. Contrary to section 20(1) of the Environment Conservation Act, (Act No. 73 of 1989), the municipality does not have a permit for a landfill site in the Bultfontein area.
12. Contrary to section 62 of MFMA, the municipality did not implement and monitor the risk management policy approved by the council.
13. Contrary to section 62 of MFMA, the fraud prevention plan was not implemented although it was approved by council.
14. In contravention of section 165(2)(b)(vii), the accounting officer did not report regularly to the municipality's audit committee on matters relating to compliance with all legislation applicable to the municipality.

15. The registered certificate issued by the Registrar of Companies on close corporations in respect of the following service providers could not be made available.
16. The supply chain management policy (SCMP), which is effective as from 1 March 2006, states that no goods, services or the execution of work to an amount over R2 000 (VAT inclusive) up to R10 000 (VAT inclusive) shall be acquired unless three verbal quotations have been obtained. A verbal quotation shall only be accepted against written confirmation of the quoted price. Contrary to the above, no visible proof could be found that three quotations had been requested from three different suppliers when procuring the goods.
17. No proof was provided that the municipality had informed National Treasury about awarding contracts valued above R100 000 up to R6 002 319, as required by MFMA Circular No. 34.
18. In terms of section 121(3)(c) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003), section 20(1)(c) of the Public Audit Act, 2004 (Act No. 25 of 2004), stipulates that an audit report must reflect an audit opinion or conclusion relating to the performance of the auditee against predetermined objectives. No annual performance information report was provided for audit purposes.
19. No evidence could be provided that the following contractor was registered and their CIDB grading could not be found in the contract file despite the fact that regulations in terms of the Construction Industry Development Board Act, 2000 (Act No. 38 of 2000) stipulates that a municipality classified as a medium-capacity municipality must be registered at the CIDB as from 30 July 2006. A municipality classified as a medium-capacity municipality in *Government Notice 733 of 1 July 2004 "Local Government: Municipal Finance Management Act 2003 Delays and exemptions"*, on 30 July 2006, and the above organs of state must apply the register of contractors to their procurement processes as contemplated in section 16(4) of the act as from the above dates and in accordance with part IV of these regulations.
20. The municipality did not have a bad debt policy to determine the manner in which provision for bad debts should be raised and under which conditions bad debts should be written off, contrary to section 64(2)(a) of the MFMA which stipulates that the accounting officer of a municipality must take all reasonable steps to ensure that the municipality has effective revenue collection systems consistent with section 95 of the Municipal Systems Act and the municipality's credit control and debt collection policy. In terms of this section the accounting officer must ensure that the municipality has and maintains a system of internal control in respect of debtors and revenue. The matter was reported in both the 2005-06 and 2006-07 financial years.
21. Section 64(3) of the MFMA stipulates that the accounting officer must immediately inform the National Treasury of any payments due by an organ of state to the municipality in respect of municipal tax or for municipal services, if such payments were regularly in arrears for periods of more than 30 days. Some organs of state had accounts in arrears for longer than the prescribed limits.

Matters of governance

The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the

implementation of certain key governance responsibilities, which we have assessed as follows:

No.	Matter of governance	Yes	No
	Audit committee		
1(a)	The municipality had an audit committee in operation throughout the financial year.		X
1(b)	The audit committee operates in accordance with approved written terms of reference.		X
1(c)	The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA].		X
	Internal audit		
2(a)	The Municipality had an internal audit function in operation throughout the financial year.		X
2(b)	The internal audit function operates in terms of an approved internal audit plan.		X
2(c)	The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.		X
	Other matters of governance		
3	The annual financial statements were submitted for audit as per the legislated deadlines section 126 of the MFMA for municipalities and municipal entities	X	
4	The financial statements submitted for audit were not subject to any material amendments resulting from the audit.		X
5	No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.		X
6	The prior year's external audit recommendations have been substantially implemented.	X	
7	PROPAC resolutions have been substantially implemented.		X
8	There are documented policies and procedures and control systems to ensure the reliability of financial reporting.	X	
9	There are documented policies and procedures and control systems to ensure compliance with applicable laws and regulations.	X	
10	The information systems were appropriate to facilitate the preparation of financial statements that are free from material misstatement.		X
11	Delegations of responsibilities are in place.	X	
12	Supply chain management policies and procedures were appropriately applied.		X
13	There is a functioning performance management system.		X
14	Based on the available information, performance bonuses are only paid after proper assessment and approval by those charged with governance.	X	

OTHER REPORTING RESPONSIBILITIES

REPORT ON PERFORMANCE INFORMATION

22. I was engaged to review the performance information.

Responsibility of the accounting officer for the performance information

23. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Responsibility of the Auditor-General

24. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.

25. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

26. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings (performance information)

27. The municipality did not submit performance information as required by section 121(3)(c) of the MFMA. Consequently, I was unable to perform all procedures I deemed necessary on performance information for the financial year ended 30 June 2008.

APPRECIATION

28. The assistance rendered by the staff of the Tswelopele Local Municipality during the audit is sincerely appreciated.

Auditor-General

Bloemfontein

30 November 2008



A U D I T O R - G E N E R A L