

**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 2009**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Tswelopele Local Municipality which comprise the statement of financial position as at 30 June 2009, statement of financial performance, the statement of changes in net assets/equity, the 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].

The 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 Statements of Generally Recognised Accounting Practice (Statements of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) 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.

The Auditor-General's responsibility

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) and section 126 of the MFMA, 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 read with *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 about 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. 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.

6. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Tswelopele Local municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Unqualified opinion

8. In my opinion the financial statements present fairly, in all material respects, the financial position of the Tswelopele Local Municipality as at 30 June 2009 and its financial performance and its cash flows for the year then ended, in accordance with the Statements of Generally Recognised Accounting Practice (Statements of GRAP) and in the manner required by the MFMA.

Emphasis of matters

Without qualifying my opinion, I draw attention to the following matters;

Significant uncertainties

Payables - Tikwana Housing Subsidy project – 2004-05

9. With reference to note 21.10 to the financial statements, the Department of Local Government & Housing allocated 100 housing subsidies to Tikwana (Hoopstad). The municipality received a grant and the contractor was appointed and paid. The remaining balance of R1 364 857 has shown no movement since the prior financial year. The municipality is currently conducting an investigation to establish whether the grant money should be paid back to the department.

Other matters

Without qualifying my opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Unaudited supplementary schedules

10. 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.

Non-compliance with applicable legislation

Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA)

11. Tswelopele Local Municipality did not enter into performance agreements with the accounting officer and managers reporting to the accounting officer as required by section 57(1)(b) of the MSA.
12. Municipal councillors did not declare their financial interest annually as required by paragraph 7: schedule 1 of the MSA.

Municipal Supply Chain Management Regulation

13. No evidence or audit trail could be submitted to the effect that the municipality had checked the service providers on the list of service providers prohibited from doing business in the public sector on the National Treasury's database as required by regulation 14(1)(c) of GNR 868 of 30 May 2005: Municipal Supply Chain Management Regulations.

Governance framework

14. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices of the accounting officer and executive management and are reflected in the key governance responsibilities addressed below:

Key governance responsibilities

15. The MFMA tasks the accounting officer with a number of responsibilities concerning financial, risk management and internal control. Fundamental to achieving this, is the implementation of key governance responsibilities which I have assessed as follows:

No.	Matter	Y	N
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	X	
2.	The financial statements were not subject to any material amendments resulting from the audit.		X
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	X	
4.	The annual financial statements were submitted for auditing as per the legislated deadlines section 126 of the MFMA.	X	
5.	Key officials were available throughout the audit process.	X	
6.	Audit committee		
	<ul style="list-style-type: none"> The municipality had an audit committee in operation throughout the financial year. 	X	
	<ul style="list-style-type: none"> The audit committee operates in accordance with approved, written terms of reference. 	X	
	<ul style="list-style-type: none"> The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA. 		X
7.	Internal audit		
	<ul style="list-style-type: none"> The municipality had an internal audit function in operation throughout the financial year. 	X	
	<ul style="list-style-type: none"> The internal audit function operates in terms of an approved internal audit plan. 	X	
	<ul style="list-style-type: none"> The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA. 		X
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	X	
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and	X	

No.	Matter	Y	N
	regulations.		
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	X	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(c)(i)/95(c)(i) of the MFMA.	X	
12.	Delegations of responsibility are in place, as set out in section 79/106 of the MFMA.	X	
13.	The prior year audit findings have been substantially addressed.	X	
14.	SCOPA/Oversight resolutions have been substantially implemented.	X	
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		X
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		X
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Tswelopele Local Municipality against its mandate, predetermined objectives, outputs, indicators and targets as per section 68/87 of the MFMA.		X
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.		X

Overall reflection on the governance framework based on other key governance requirements

16. The financial statements were subject to material corrections resulting from the audit process which are attributable to financial staff not being trained and not taking proactive steps to ensure that the financial statements comply with GRAP requirements. The consultants were only appointed after year-end to compile financial statements and could therefore also not be proactive.
17. Instability in the internal audit section and the audit committee resulted in internal audit reports not being issued for the year under review, while only one audit committee meeting had been held during the year under review.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

18. I was engaged to review the performance information.

The accounting officer's responsibility for the performance information

19. In terms of section 121(3)(c) of 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 Local Government: Municipal Systems Act, 2000 (Act No.32 of 2000) (MSA).

The Auditor-General's responsibility

20. 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.
21. 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.
22. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

Findings on performance information

Non-compliance with regulatory requirements

No reporting of performance information

23. The performance information included in the annual report of Tswelopele Local Municipality had not been submitted for audit purposes within the required time frames and could thus not be audited.

Existence and functioning of a performance audit committee

24. Tswelopele Local Municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee as required by regulation 14(2) of the Municipal Planning and Performance Management Regulations, 2001.

Internal auditing of performance measurements

25. The internal audit processes and procedures did not include assessments of the extent to which Tswelopele Local Municipality's performance measurements were reliable in measuring the performance of the municipality on key as well as general performance indicators.

Lack of adoption or implementation of a performance management system

26. Tswelopele Local Municipality did not implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring managed including determining the roles of different role players, as required in terms of regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

APPRECIATION

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

Auditor-General
Bloemfontein

25 February 2010



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence