

REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND THE COUNCIL ON THE TSWELOPELE LOCAL MUNICIPALITY

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 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages xxx to xxx.

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 in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010) (DoRA), and for such internal control as management determines 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. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), and section 4 of the Public Audit Act of South Africa, 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 International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Consumer receivables from exchange transactions

7. I could not confirm the existence of consumer debtors of R22 384 354 as disclosed in note 5 (gross balances) to the financial statements. In the absence of payments made after year-end as well as service contracts and indigent applications, I could not confirm that these debtors did exist at year-end.

8. I was unable to obtain sufficient, appropriate audit evidence that bad debts written off during the year under review amounting to R6 163 825 had been written off with the approval of the council.
9. Approved indigent applications for a sample of consumer debtors could not be submitted for audit purposes. In the absence of these applications, I could not verify the status of these consumer debtors as indigent and the municipality's records did not allow me to perform alternative audit procedures to confirm the status of these debtors as indigent.
10. Contrary to the requirements of SA Standard of GRAP 1 *Presentation of Financial Statements*, the municipality did not disclose debtors with arrangements as non-current assets in the financial statements.

Trade and other payables

11. I could not confirm the existence, valuation as well as rights and obligations of trade and other payables amounting to R1 496 666 included in note 18 to the financial statements. I was unable to confirm the total extent of income, expenditure, assets or liabilities that might be included in these amounts, as sufficient appropriate audit evidence could not be presented and alternative procedures could not be performed.
12. Due to a lack of a system of control over trade payables, I could not perform satisfactory audit procedures to obtain reasonable assurance that all amounts payable by the municipality had been properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of trade payables of R4 025 643 as disclosed in note 18 to the financial statements.
13. The municipality could not provide sufficient appropriate audit evidence to support amounts received in advance amounting to R1 552 661 as disclosed in note 18 to the financial statements. I was unable to confirm the existence, valuation as well as rights and obligations of payments received in advance.
14. The municipality could not provide sufficient appropriate audit evidence to support other payables of R956 100 included in note 18 to the financial statements. I was unable to confirm the existence, valuation as well as rights and obligations of other payables to the amount of R956 100.

Investment properties

15. Properties that conform to the definition and recognition criteria of an investment property as stated in SA Standard of GRAP 16 *Investment Property*, were not included in the investment property register. As I was unable to determine the extent of the misstatement in the disclosed investment property balance, I was unable to obtain sufficient appropriate audit evidence to confirm the completeness of investment property amounting to R13 066 000 as disclosed in note 10 to the financial statements.

Biological assets

16. I was unable to obtain sufficient appropriate audit evidence to confirm the existence and completeness of biological assets amounting to R1 067 100 as disclosed in note 9 to the financial statements. The municipality's records did not allow me to perform any alternative procedures.

Irregular expenditure

17. Section 1 of the MFMA defines irregular expenditure as expenditure incurred by a municipality that is not in accordance with a requirement of the act and that has not been condoned in terms of section 170. Several instances were noted where the municipality did not comply with the requirements outlined in the Municipal Supply Chain Management (SCM) Regulations and its own SCM policy. Based on my assessment, irregular expenditure as disclosed in note 42 to the financial statements was understated by at least R280 969.

Qualified opinion

18. In my opinion, except for the 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 Tswelopele Local Municipality as at 30 June 2011, 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

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

Restatement of corresponding figures

19. As disclosed in note 36 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of correcting prior year audit findings during the current financial year in the financial statements of the municipality at, and for the year ended, 30 June 2010.

Going concern

20. As disclosed in note 38 to the financial statements, the ability of the municipality to continue as a going concern is dependent on a number of factors, including the need to obtain funding on a continuous basis.

Additional matter

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

Unaudited supplementary schedule

21. The supplementary information set out on page XXX to XXX 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

22. In accordance with the PAA and in terms of *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages XX to XX and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

Usefulness of information

23. The reported performance information was deficient in respect of the following criteria:

- Consistency: The reported objectives, indicators and targets are not consistent with the approved integrated development plan.
- Measurability: The targets are not specific and time bound.

The following audit finding relates to the above criteria:

Reported objectives, indicators and targets not consistent when compared to planned objectives, indicators and targets (consistency)

24. The municipality did not report throughout on its performance against the planned development objectives, indicators and targets as stated in the service delivery and budget implementation plan.

Reliability of information

25. The reported performance information was deficient in respect of the following criteria:

- **Validity:** The actual reported performance occurred and pertains to the entity, i.e. the reported performance information can be traced back to the source data or documentation.
- **Accuracy:** The amounts, numbers and other data relating to reported actual performance have been recorded and reported appropriately.
- **Completeness:** All actual results and events that should have been recorded have been included in the reported performance information.

The following audit finding relates to the above criteria:

The validity, accuracy and completeness of reported performance against targets could not be confirmed as inadequate supporting source information was provided (reliability)

26. There was not sufficient appropriate audit evidence in relation to the reporting in the annual performance report. There were also no satisfactory audit procedures that I could perform to obtain the required assurance as to the validity, accuracy and completeness of the reported information.

Compliance with laws and regulations

Strategic planning and performance management

27. The municipality did not implement a framework that described and represented how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement would be conducted, organised and managed, including determining the roles of the different role players, as required by sections 38, 39, 40 and 41 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and Municipal Planning and Performance Management Regulations 7 and 8.

Budget

28. The municipality incurred expenditure in excess of the limits of the amounts provided for in the votes in the approved budget, in contravention of section 15 of the MFMA.

29. The accounting officer did not make public the approved adjustment budget in terms of Municipal Budget and Reporting Regulation 26(1) (GNR 393 of 17 April 2009) or submit the adjustment budget within 10 days to the provincial treasury, as required by section 28(7) of the MFMA and Municipal Budget and Reporting Regulations 26 and 27(1) (GNR 393 of 17 April 2009).

30. The mayor did not approve the service delivery and budget implementation plan within 28 days after the approval of the budget, as required by section 53(1)(c)(ii) of the MFMA, nor did the accounting officer make public the approved service delivery and budget implementation plan within 10 days after it had been approved by the mayor, as required by Municipal Budget and Reporting Regulation 19 (GNR 393 of 17 April 2009).

31. The monthly budget statements, mid-year budget and performance assessment report were not placed on the municipality's website, as required by Municipal Budget and Reporting Regulations 5 and 34(1) (GNR 393 of 17 April 2009).

Annual financial statements and performance report

32. 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 identified by the auditors were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

33. The annual performance report did not contain a comparison of the performance of the municipality and of each external service provider with development priorities, objectives and performance indicators set out in its integrated development plan, as required by section 46 of the MSA.

Audit committees

34. No functioning audit committee was in place, as required by section 166(1) of the MFMA.

35. The 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 Municipal Planning and Performance Management Regulation 14.

Internal audit

36. The internal audit unit did not function as required by section 165(2) of the MFMA, as the unit did not advise the accounting officer on matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management as well as loss control.

37. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required by section 45(1)(a) of the MSA and Municipal Planning and Performance Management Regulation 14.

38. The internal auditors of the municipality did not audit the performance measurements on a continuous basis and did not submit quarterly reports on their audits to the municipal manager, as required by Municipal Planning and Performance Management Regulation 14.

Human resource management and compensation

39. Senior managers directly accountable to the municipal manager did not undergo annual performance assessments for the year under review, as required by section 57(1)(b) and 57(2)(a) of the MSA.

Expenditure management

40. The accounting officer did not take reasonable steps to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

41. The municipality did not recover irregular or fruitless and wasteful expenditure from the liable person, as required by section 32(2) of the MFMA.

INTERNAL CONTROL

42. In accordance with the PAA and in terms of *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

43. The accounting officer did not exercise oversight responsibility over reporting, compliance with laws and regulations as well as internal control. This resulted in the municipality receiving a qualified opinion and significant findings on predetermined objectives and compliance.

Financial and performance management

44. Proper record keeping was not implemented in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting, resulting in a limitation of scope on my audit.
45. The accounting officer did not prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information.

Governance

46. Management did not identify risks relating to the achievement of financial and performance reporting objectives. An audit committee was not functioning during the year under review. Ongoing monitoring and supervision were not undertaken to enable an assessment of the effectiveness of internal control over financial and performance reporting.
47. Management did not ensure that there was an adequately resourced and functioning internal audit unit that identified internal control deficiencies and recommended corrective action effectively, thus resulting in significant internal control deficiencies not being addressed in a timely manner.

Bloemfontein

30 November 2011



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