

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

### REPORT ON THE FINANCIAL STATEMENTS

#### Introduction

1. I have audited the financial statements of the Tswelopele Local Municipality set out on pages xx... to xx... which comprise, the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and statement of cash flows 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 the 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, 2011 (Act No. 6 of 2011) (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 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 2012, and their financial performance and cash flows for the year then ended in accordance with South African Standards of GRAP, 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 39 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of errors discovered during 2012 in the financial statements of the Tswelopele Local Municipality at and for the year ended 30 June 2012.

#### **Irregular expenditure**

9. As disclosed in note 44 to the financial statements, irregular expenditure to the amount of R2 076 997 (2011: R1 778 151) was incurred mainly due to the non-adherence to supply chain management procedures as prescribed by Supply Chain Management (SCM) Regulations. The full extent of the irregularities of R2 076 997 is still in the process of being determined.

#### **Material impairments**

10. As disclosed in note 5 to the financial statement, a debt impairment provision to the amount of R3 379 784 (2011: R7 613 449) was made for consumer debtors, due to poor collection practices.

#### **Additional matters**

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

#### **Unaudited supplementary schedules**

12. 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**

13. 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**

14. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages xx to xx of the annual report.
15. 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 development 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 (FMPP)*.

The reliability of the information in respect of the selected development objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

16. The material findings are as follows concerning the usefulness and reliability of the information.

## **Usefulness of information**

### **Presentation**

17. Section 46 of the Municipal Systems 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 all measures taken to improve performance as disclosed in the annual performance report. The municipality's records did not permit the application of alternative audit procedures. This was due to the absence of information systems. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the validity, accuracy and completeness of the measures taken to improve performance.

### **Consistency**

18. The MSA, section 41(c) requires that the actual achievements against all planned indicators and targets must be reported annually. The annual performance report submitted for audit purposes did not include the actual performance of 100% of all planned objectives specified in the integrated development plan for the year under review. This was due to lack of information systems recording and documenting of actual achievements against targets.

### **Measurability**

19. The FMPPI requires that performance targets be measurable. The required performance could not be measured for a total of 100% of the targets. This was due to the fact that management was aware of the requirements of the FMPPI but chose not to apply the principles contained therein.

## **Reliability of information**

### **Validity**

20. The FMPPI requires that processes and systems which produce the indicator should be verifiable. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the validity of the actual reported performance relevant to 100% of development objectives. This was due to limitations placed on the scope of my work due to the absence of information systems and the municipality's records not permitting the application of alternative audit procedures.

### **Accuracy**

21. The National Treasury FMPPI requires that the indicator be accurate enough for its intended use and respond to changes in the level of performance. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the accuracy of the actual reported performance relevant to 100% of development objectives. This was due to limitations placed on the scope of my work due to the absence of information systems and the municipality's records not permitting the application of alternative audit procedures.

### **Completeness**

22. The FMPPI requires that documentation addressing the systems and processes for identifying, collecting, collating, verifying and storing information be properly maintained. The municipality could not provide sufficient appropriate evidence to support any of the selected development objectives.

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### **Compliance with laws and regulations**

23. 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:

### **Strategic planning and performance management**

24. The municipality did not afford the local community at least 21 days to comment on the final draft of its integrated development plan before the plan was submitted to council for adoption, as required by regulation 15(3) of the Municipal Planning and Performance Management Regulations (MPPM).

25. The municipality did not give effect to its integrated development plan and/or conduct its affairs in a manner which was consistent with its integrated development plan, as required by section 36 of the MSA and MPPM Regulation 6.

26. The municipality did not conduct its affairs in a manner which was consistent with its integrated development plan (IDP), as required by section 36 of the MSA and MPPM Regulation 6, as the annual budget was not based on the development priorities and objectives as well as the performance targets set by the municipality in its IDP.

27. The municipality did not establish a performance management system and did not clarify the roles and responsibilities of each role-player in the functioning of the system. Furthermore, the municipality did not determine the frequency of reporting and the lines of accountability for performance and did not relate to the municipality's performance management processes and did not provide for procedures by which the system is linked to the municipality's integrated development planning processes, as required by section 38 (a) of the MSA and MPPM Regulation 7(2)(c/e/f/g).

28. The municipality did not monitor performance, with regard to each of those development objectives and against the key performance indicators and targets set and did not measure and review performance at least once per year, with regard to each of those development objectives and against the key performance indicators and targets set. Furthermore the municipality did not take steps to improve performance with regard to those development priorities and objectives where performance targets are not met as required by section 41 of the MSA.

### **Annual financial statements, performance and annual report**

29. 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 property, plant and equipment, investment property, leases, intangible assets, payables, provisions and grant revenue identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

### **Audit committees**

30. The audit committee did not advise the council, accounting officer and management on matters relating to financial control, internal audit, risk management, accounting policies,

effective governance, performance management and performance evaluation as required by section 166(2)(a) of the MFMA.

31. 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.
32. The audit committee did not review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the entity, its efficiency and effectiveness and its overall level of compliance with the MFMA, DoRA and (other applicable legislation), as required by section 166(2)(b) of the MFMA.
33. The audit committee did not submit at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by MPPM Regulation 14(4)(a)(iii).

#### **Internal audit**

34. The internal audit unit did not audit the performance measurements on a continuous basis and submit quarterly reports on their audits to the municipal manager, as required by MPPM Regulation 14(1)(c).

#### **Procurement and contract management**

35. 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).

#### **Expenditure management**

36. The accounting officer did not take reasonable steps to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA and section 95(d) of the MFMA.
37. Irregular expenditure was not recovered from the liable person, as required by section 32(2) of the MFMA.

#### **Revenue management**

38. The municipality credit control and debt collection policy was not implemented, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of MFMA, as instances were identified where the municipality did not disconnect or restrict flow of water or electricity supply for accounts rendered by the municipality not paid by the due date, nor hand over to attorneys debt exceeding 120 days and older.

#### **Internal control**

39. 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 findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

#### **Leadership**

40. The accounting officer did not fully exercise oversight responsibility over performance measurement and reporting which resulted in the municipality being disclaimed on performance information. This was due to a lack of appropriate policies and procedures to enable and support performance measurement reporting.
41. The accounting officer did not fully exercise oversight responsibility over compliance with legislation which resulted in significant findings on non compliance with laws and

regulations being reported and the municipality incurring irregular expenditure. This was due to leadership not implementing effective steps to prevent non-compliance.

#### **Financial and performance management**

42. The accounting officer did not ensure that the municipality implements appropriate processes and procedures to collect, collate, verify and store and report on performance information. This was due to management not implementing policies and procedures to enable and support performance measurement reporting.
43. Compliance with SCM Regulations was not adequately monitored which resulted in the municipality incurring irregular expenditure. This was due management not implementing effective SCM processes and procedures.

#### **Governance**

44. Although the municipality had an audit committee during the year, it was not effective in advising management on key issues of risk management, internal controls, financial and performance reporting and governance. This was due to non attendance of one independent member that affected its effectiveness and ability of the audit committee to respond to the needs of the municipality.
45. The internal audit unit did not effectively discharge its mandate over performance management, evaluation and reporting. This was due to limited of capacity in the internal audit unit.

*Auditor-General*

Bloemfontein

30 November 2012



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*