

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 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 2013, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended and statement of comparison of budget and actual amounts, 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, 2012 (Act No. 5 of 2012) (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 the 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 2013 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 48 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered during 2013 in the financial statements of the municipality at, and for the year ended, 30 June 2012.

Material losses and impairments

9. As disclosed in note 4 to the financial statements, material losses to the amount of R4 503 471 (2012: R3 379 784) were incurred as a result of bad debts written off.
10. As disclosed in note 4 to the financial statements, a provision for impairment to the amount of R24 887 512 (2012: R25 278 466) was made with regard to amounts owing to the municipality in respect of consumer debts amounting to R32 698 943 (2012: R706 702).

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

11. 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

12. 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.
13. 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's *Framework for managing programme performance information* (FMPPI).
14. 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).

The material findings are as follows:

Usefulness of information

15. Section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. The performance report submitted by the municipality for audit purposes did not include actual performance for the year. I could therefore not conclude as to whether the municipality had achieved its planned targets and reasons for not achieving, where applicable. This was due to the lack of adequate knowledge and skills by officials and inadequate oversight over performance reporting.
16. 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, indicators and targets specified in the integrated development plan for the year under review. This was due to the lack of adequate knowledge and skills by officials and inadequate oversight over performance reporting.

17. The FMPPPI requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 98% of the targets were not specific in clearly identifying the nature and the required level of performance. This was due to the lack of adequate knowledge and skills by officials and inadequate oversight over performance reporting.
18. The FMPPPI requires that performance targets be measurable. The required performance could not be measured for 100% of the targets. The nature and required level of performance were not clearly specified for each target. This was due to the fact that management was aware of the requirements of the FMPPPI but did not receive the necessary training to enable application of the principles.
19. The FMPPPI requires that the time period or deadline for delivery be specified. A total of 51% of the targets were not time bound in specifying a time period or deadline for delivery. This was due to the lack of adequate knowledge and skills by officials and inadequate oversight over performance reporting.
20. The FMPPPI requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 36% of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the lack of adequate knowledge and skills by officials and inadequate oversight over performance reporting.
21. The FMPPPI requires that it must be possible to validate the processes and systems that produce the indicator. A total of 100% of the indicators were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the lack of key controls in the relevant systems of collection, collation, verification and storage of actual performance information

Reliability of information

22. The FMPPPI requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to 100% of the development objectives. This was due to limitations placed on the scope of my work as actual performance was not included in the annual performance report and the municipality's records did not permit the application of alternative procedures to determine the actual performance that should have been reported.

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 establish a performance management system, as required by section 38(a) of the MSA.

Budget

25. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

Annual financial statements, performance and annual reports

26. 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 non-current assets, current assets, liabilities, expenditure 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.
27. The council's oversight report on the 2011-12 annual report was not made public within seven days of its adoption, as required by section 129(3) of the MFMA.
28. The annual performance report for the year under review does not include the performance of the municipality, a comparison of the performance with set targets, a comparison with the previous financial year and measures taken to improve performance as required by section 46(1)(a), (b) and (c) of the MSA.

Audit committee

29. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.
30. The audit committee did not advise the accounting officer and municipal council on matters relating to risk management, performance management and performance evaluation as required by section 166(2)(a) of the MFMA.
31. The audit committee did not advise the accounting officer and municipal council on matters relating to compliance with legislation, as required by section 166(2)(a)(vii) of the MFMA.
32. The audit committee did not review the municipality's performance management system and make recommendations to the council, as required by municipal planning and performance management (MPPM) regulation 14(4)(a)(ii).
33. The audit committee did not review the quarterly internal audit reports on performance measurement, as required by MPPM regulation 14(4)(a)(i).
34. 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

35. The internal audit unit did not function as required by section 165(2) of the MFMA, in that:
- (a) it did not prepare a risk-based audit plan and an internal audit programme for the financial year under review
 - (b) it did not report to the audit committee on the implementation of the internal audit plan.
36. The internal audit unit did not advise the accounting officer and report to the audit committee on matters relating to compliance with the MFMA, DoRA and other applicable legislation, as required by section 165(2)(b)(vii) of the MFMA.

Procurement and contract management

37. 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) and (c).

Expenditure management

38. Money owing by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.
39. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred and accounted for creditors, as required by section 65(2)(b) of the MFMA.
40. Reasonable steps were not taken to prevent unauthorised, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Revenue management

41. A 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.

Assets management

42. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

Consequence management

43. Irregular expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.

Internal control

44. I considered internal control relevant to my audit of the financial statements, the 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

45. The municipal council and senior management did not provide adequate leadership as they did not ensure that the municipality had an approved performance management system. The accounting officer did not ensure that officials responsible for performance planning, monitoring, evaluation and reporting had the required competencies to enable them to perform their responsibilities. There were no consequences for incomplete and inaccurate performance by officials.
46. The accounting officer did not exercise its oversight responsibility over compliance with laws and regulations, which resulted in material repeat findings on predetermined objectives and non-compliance with laws and regulations being reported. This was due to a lack of consequences for poor performance by officials and changes in key senior management as the new accounting officer, chief financial officer and technical manager were appointed in the last quarter of the financial year.

47. The accounting officer did not exercise adequate oversight over IT governance as processes to address findings on IT reported in the previous years were only initiated after the year-end. This was mainly due to the slow response by the political leadership as changes in key senior management were implemented in the last quarter of the financial year.

Financial and performance management

48. Ongoing monitoring and supervisory reviews over performance and compliance reporting were not adequate. Internal control weaknesses were not identified and corrected in time to ensure accurate and complete reporting. This was due to changes in key senior management in the last quarter of the financial year and lack of consequences for poor performance as officials were not held responsible for inaccurate and incomplete performance reporting and contravention of laws and regulations.

Governance

49. The audit committee did not provide adequate oversight over governance and internal controls as some members were appointed after year-end. The accounting officer and municipal council did not ensure that a properly constituted audit committee was fully operational throughout the year. This resulted in inadequate oversight over the internal audit function. The municipal council did not ensure that members of the audit committee were appointed in time to perform the oversight responsibility.

50. Work performed by the internal audit function was not based on a risk assessment and therefore had limited impact on addressing key weaknesses in performance management and compliance with laws and regulations. This was due to a lack of effective leadership by the accounting officer as risk assessment was not prioritised and implemented.

Auditor General

Bloemfontein

30 November 2013



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence