

# **REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE PROVINCIAL LEGISLATURE ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF LETSEMENG LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2007**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I was engaged to audit the accompanying financial statements of the Letsemeng Local Municipality which comprise the statement of financial position as at 30 June 2007, 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 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 the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 to the financial statements and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). 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 in accordance with the International Standards on Auditing. Because of the matters discussed in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### **Basis of accounting**

4. The municipality's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 to the financial statements.

### **Basis for disclaimer of opinion**

#### **Material limitation of scope**

5. Due to material weaknesses in the financial accounting and management processes, the municipality was unable to provide me with appropriate supporting evidence in respect of the journal entries passed to effect the conversion from the previous entity specific basis of accounting, IMFO, to the basis of accounting as disclosed in accounting policy note 1

to the financial statements. The management of Letsemeng Local Municipality also did not authorise the accounting entries prior to these being processed in the financial records.

The conversion from IMFO to Generally Recognised Accounting Practice (GRAP) and Generally Accepted Municipal Accounting Practice (GAMAP) requires the adjustment of property, plant and equipment, funds and reserves and the results of operations for both the years ending 30 June 2006 and 30 June 2007. In the absence of appropriate supporting documentation I was unable to determine whether all the adjustments that might have been necessary were indeed processed. Furthermore, since the municipality's accounting records did not permit the application of reasonable alternative audit procedures, I was unable to obtain all the information and explanations I considered necessary to obtain reasonable assurance that the financial position of Letsemeng Local Municipality is fairly presented in the accompanying financial statements.

Due to the lack of supporting documentation I was unable to quantify the extent to which the annual financial statements are misstated.

As adequate accounting records supporting the amounts presented in the financial statements have not been maintained, it was not possible for me to determine that the accounting officer adequately discharged her responsibilities in terms of section 62(1)(b) of the MFMA with regard to the maintenance of full and proper records of the financial affairs of the municipality in accordance with the prescribed norms and standards.

### Comparative figures

6. The following material differences exist between the comparative amounts as per the financial statements for the year ended 30 June 2007 and those amounts presented in the published annual financial statements for the year ended 30 June 2006:

Account balance	Comparative figures	2006 Published financial statements	Difference
<b>Statement of Financial Position</b>			
Payables and VAT (excluding leave pay provision)	(R 2 540 449)	(R 2 967 319)	(R 426 870)
Unspent conditional grants and receipts	(R 27 926)	(R 6 306 756)	(R 6 278 830)
Long-term debtors	R 0	R 44 811	R 44 811
Consumer receivables	R 2 374 700	R 6 163 095	R 3 788 395
Other receivables	R 488 392	R 0	(R 488 392)

<b>Statement of Financial Performance</b>			
Revenue	(R 46 420 602)	(R 38 575 663)	R 7 844 939
Employee related costs (including Remuneration of councilors)	R 12 065 737	R 11 748 018	(R 317 719)
Bad debts	R 7 016 485	R 2 679 974	(R 4 336 511)
Repairs and maintenance	R 2 253 398	R 2 261 230	R 7 832
Bulk purchases	R 4 643 368	R 3 991 168	(R 652 200)
General expenses	R 10 763 933	R 11 453 601	R 689 668

Due to the lack of documentation supporting adjustments to the comparative figures and the effect of unsupported journal entries passed to effect the conversion from IMFO to GRAP/GAMAP as detailed in paragraph 5 above, I was unable to confirm or verify by alternative means the comparative figures included in the financial statements for the year ended 30 June 2007.

### **Property, plant and equipment**

7. As a result of the audit findings detailed below and in paragraph 5 above, I was unable to obtain sufficient appropriate audit evidence to satisfy myself that property, plant and equipment with a carrying value of R90 860 763 (2006: R68 741 190), included in the statement of financial position and disclosed in note 7 to the financial statements, are fairly stated. My audit report on the financial statements for the year ended 30 June 2006 dated 31 May 2007 was modified accordingly.

Procedures and practices implemented by the accounting officer were not consistently effective to ensure sufficient control over property, plant and equipment as required by section 63(2) of the MFMA. The following deficiencies were noted with regard to the fixed asset register:

- (a) The listing of all erven belonging to the municipality as per the valuation roll could not be agreed to the erven included in the fixed asset register. Consequently, it could not be confirmed or verified by alternative means whether these properties are registered in the name of the municipality.
- (b) The descriptions, serial numbers, location and condition of items as indicated in the fixed asset register are inadequate. Consequently, I was unable to perform all the audit procedures that I considered necessary to physically verify the existence, valuation and completeness of property, plant and equipment or to confirm the ownership thereof. Furthermore, I could not be provided with evidence to confirm that management conducted an asset verification during the current year. As a result, I could not determine how management ensured that assets listed in the fixed asset register still exist and that all assets are recorded in the fixed asset register.

- (c) The supporting documentation provided by the municipality in respect of capital projects in progress was inadequate. Consequently, I was unable to satisfy myself as to the completeness of capitalised projects as recorded in the fixed asset register.

### **Irregular expenditure**

8. The municipality did not disclose the following irregular expenditure totaling R6 502 798 (2006: R1 875 498), as required by section 125(2)(d) of the MFMA:
- (a) Contrary to section 79 of the MFMA, I could not be provided with evidence that bad debts written off in the sum of R5 660 703 were appropriately authorised in accordance with Letsemeng Local Municipality's delegation of powers and duties. Due to the fact that the bad debts were written off in contravention of section 106 of the MFMA, the resultant expenditure is considered to be irregular.
- (b) Contrary to the municipality's *Supply Chain Management Policy*, adequate comparative quotations were not obtained in respect of expenditure transactions with a total value of R125 955 (2006: R1 095 525). Due to the fact that the expenditure was incurred contrary to the *Supply Chain Management Policy* and chapter 11 of the MFMA, the expenditure is considered to be irregular expenditure as defined in section 1 of the MFMA.
- (c) The municipality did not provide evidence that expenditure in respect of additions to property, plant and equipment amounting to R716 140 was incurred in terms of the approved budget. Although this matter was referred to the Council, I could not be provided with evidence that the Council ratified the expenditure. Due to the fact that this expenditure was incurred in contravention of section 15 of the MFMA, the expenditure is considered to be irregular.
- (d) During the previous financial year, the council of Letsemeng Local Municipality approved the write-off of bad debts to the amount of R1 900 000 at a special council meeting held on 3 June 2005. An amount of R2 679 973 was, however, written off as bad debt on service accounts. I could not be provided with appropriate supporting evidence that the difference of R779 973 had been approved by the council of the municipality. Since the bad debts were written off in contravention of section 15 of the MFMA, the expenditure is considered to be irregular expenditure as defined in section 1 of the Act.

### **Unauthorised expenditure**

9. The municipality did not disclose the following unauthorised expenditure totaling R8 467 037 (2006: R1 817 376), as required by section 125(2)(d) of the MFMA:
- (a) The municipality incurred unauthorised expenditure totaling R8 467 036 during the year under review due to over expenditure on the following votes. I could not be provided with evidence that the expenditure was approved by the council in terms of section 29 of the MFMA as unforeseen and unavoidable expenditure.

<b>Vote</b>	<b>Actual expenditure 2006/2007</b>	<b>Budget expenditure 2006/2007</b>	<b>Over expenditure</b>
Town hall	R 345 285	R 207 627	R 137 658
Waste management	R 6 349 684	R 4 764 388	R 1 585 296

Waste water management	R 7 354 876	R 4 411 712	R 2 943 164
Cemeteries	R 107 787	R 80 121	R 27 666
Sport and recreation	R 383 702	R 185 903	R 197 799
Water	R 10 518 890	R 7 107 604	R 3 411 286
Health	R 389 842	R 225 675	R 164 167
Total Expenditure	R 25 450 066	R 16 983 030	R 8 467 036

(b) Unauthorised expenditure totaling R1 817 376, which comprised an amount of R55 946 due to over expenditure incurred in the town hall and offices' budget votes and R1 761 430 due to over expenditure on the capital budget, was incurred during the year ended 30 June 2006. I could not be provided with evidence that the expenditure was approved by the council in terms of section 29 of the MFMA as unforeseen and unavoidable expenditure.

### Capital commitments

10. The municipality did not maintain a contract register which provides particulars of all approved capital contracts, the expenditure incurred to date and the municipality's future capital commitment in respect of each contract. Furthermore, the municipality did not retain records of all capital contracts awarded. There were no satisfactory audit procedures that I could perform to obtain reasonable assurance that capital commitments in the sum of R71 330 724 (2006: R9 251 500), as disclosed in note 23 to the financial statements are complete and recorded in the financial statements at appropriate amounts. My audit report on the financial statements for the year ended 30 June 2006 dated 31 May 2007 was modified accordingly.

### Unspent conditional grants and receipts

11. The management of Letsemeng Local Municipality did not provide appropriate supporting documentation to verify the existence, rights and obligations and valuation of unspent conditional grants amounting to R3 523 041. It was thus not possible to perform all the procedures and obtain all the explanations that I considered necessary to confirm these balances.

12. Included in unspent conditional grants and receipts in the statement of financial position and as disclosed in note 5 to the financial statements is a debit balance of R1 013 520 in respect of the overspending on the Municipal Infrastructure Grant (MIG) allocated to the municipality. I could not be provided with appropriate supporting documentation in respect of the expenditure on the MIG. In the circumstances, I was unable to perform all the procedures and obtain all the explanations that I considered necessary and there were no reasonable alternative audit procedures that I could perform to obtain reasonable assurance regarding the rights and obligations and valuation of the unspent conditional grants and receipts as disclosed in note 5 to the financial statements.

## **Consumer deposits**

13. I was unable to confirm or verify by alternative means the completeness of consumer deposits in the sum of R420 839 (2006: R377 943) included in the statement of financial position and disclosed in note 3 to the financial statements. This was due to the fact that the municipality did not maintain a register of consumer deposits and reconciliations between the consumer deposit control account and the individual debtor accounts were not performed. Several instances were also identified where consumer deposits were not paid on new connections. My audit report on the financial statements for the year ended 30 June 2006 dated 31 May 2007 was modified accordingly.

## **Receivables**

14. An estimate in respect of electricity and water consumption for the period between the last meter-reading date and the year end has been incorrectly classified and disclosed as a receivable for health claims in note 11 to the financial statements. Had the receivable been correctly classified, consumer receivables as disclosed in note 10 to the financial statements would have been increased by R423 134, whilst other receivables at year end would have decreased by the same amount.
15. Total consumer receivables in the sum of R9 345 387 as disclosed in note 10 to the financial statements do not agree to the total consumer receivables of R9 462 545 according to the debtors age analysis at 30 June 2007. The management of Letsemeng Local Municipality was unable to provide a reasonable explanation for the difference of R117 158. Furthermore, the analysis of the debtors ageing as disclosed in note 10 to the financial statements amounts to R9 213 657 and does not agree with the total disclosed consumer receivables of R9 345 387. In the circumstances, I was unable to perform all the procedures and obtain all the explanations that I considered necessary and there were no reasonable alternative audit procedures that I could perform to obtain reasonable assurance regarding the completeness, rights and obligations and valuation of consumer receivables as at 30 June 2007.
16. I could not be provided with evidence that consumer and other receivables had been impaired in accordance with the requirements of the South African Statement of Generally Accepted Accounting Practice, IAS 39 (AC133): *Financial Instruments: Recognition and Measurement*. The municipality only made a general provision for doubtful receivables. As the relevant information was not available I was not able to determine what the impairment charge should have been has IAS 39 been applied correctly.

## **Contingent liability**

17. During the previous financial year, former employees of the municipality had been awarded an amount of R430 490 in a Commission for Conciliation, Mediation and Arbitration hearing held on 19 August 2005. As the municipality was in the process of appealing against the verdict at 30 June 2006, the amount should have been disclosed as a contingent liability in the financial statements for the year ended 30 June 2006, pending the outcome of the appeal. No disclosure in this regard was, however, made in the notes to the published annual financial statements for the year ended 30 June 2006. Notwithstanding the fact that the municipality succeeded in their appeal during the current financial year, this amount should still have been disclosed in the comparative figures in the financial statements for the year ended 30 June 2007.

## Revenue

18. As a result of the audit findings detailed below, I was unable to obtain sufficient appropriate audit evidence to satisfy myself that revenue in respect of property rates in the sum of R2 814 134 (2006: R2 340 618), included in the statement of financial performance and disclosed in note 13 to the financial statements has been completely and accurately recorded. My audit report on the financial statements for the year ended 30 June 2006 dated 31 May 2007 was modified accordingly.
- (a) No reconciliation was performed between the official valuation roll and the actual rates and taxes charged. Furthermore, I was not able to confirm the completeness of the revenue by means of recalculation.
  - (b) I could not be provided with sufficient audit evidence to confirm that management conducted interim valuations or that valuation rolls were updated with improvements during the financial year. As a result, I could not determine how management ensured that properties are listed at appropriate values in the municipal valuation roll.
  - (c) Owner details per the manual valuation roll do not compare to the owner details per the electronic valuation roll. Neither the manual nor the electronic valuation rolls were reviewed or reconciled on a regular basis. It was also found that the valuation rolls are not updated timeously with deeds registered.
19. I could not be provided with registers and lease contracts to confirm the completeness of revenue in respect of rental, dividends, fines and penalties amounting to R488 743.
20. Interest earned on external investments according to the statement of financial performance amounts to R2 765 425 whilst the interest earned for the year ended 30 June 2007 according to the investment register amounts to R1 555 389. The difference is due to the interest earned on receivables being understated by R1 210 036 and interest earned on external investments being overstated by the same amount on the statement of financial performance.
21. With reference to paragraph 12 of this report and owing to the lack of supporting documentation, I was unable to quantify the extent to which the revenue from government grants and receipts totaling R32 472 608, included in the statement of financial performance and as disclosed in note 15 to the financial statements, is misstated.
22. Contrary to paragraph 93 of GRAP 1: *Presentation of Financial Statements*, the municipality presented the budgeted figures for revenue and expenditure for the year under review on the face of the statement of financial performance. An accounting standard on the presentation of the budget information in the financial statements has not been developed by the local standard setter. In the absence of such a standard, I do not express an opinion on the budget information presented in the financial statements.

## Taxes and VAT

23. Included in the VAT accounts totaling R1 253 451, as disclosed in the statement of financial position and note 6 to the financial statements, is a VAT input account amounting to R426 886 that reflected no movement for both the current and previous financial years. No supporting documentation could be provided by management to enable me to verify the existence, valuation and rights and obligations attached to the balance.

### **Events after the reporting date**

24. The management of Letsemeng Local Municipality did not provide sufficient appropriate audit evidence that all events subsequent to the date of the accompanying financial statements up to the date of this audit report that may require adjustment of, or disclosure in, the accompanying financial statements, have been identified. As a result, I was unable to determine whether any adjustments to, or disclosure in the accompanying financial statements might have been found necessary had I been able to perform such an evaluation.

### **Prior year financial statements qualified - not resolved**

25. In terms of section 131 of the MFMA, a municipality must address any issues raised by the Auditor-General in an audit report. The mayor of a municipality must ensure compliance by the municipality. Matters noted in my audit report for the year ended 30 June 2006 dated 31 May 2007 have not yet been resolved by management. As a result, the mayor and management of Letsemeng Local Municipality did not fulfill their responsibility in terms of section 131 of the MFMA.

### **Disclaimer of opinion**

26. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have been unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of Letsemeng Local Municipality. Accordingly, I do not express an opinion on the financial statements.

### **OTHER MATTERS**

I draw attention to the following matters that are ancillary 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)**

27. Section 8(2)(b) of the MFMA requires that all income received by the municipality on investments held be paid into the primary bank account. Contrary to this prescript, all interest received on external investments was paid into the particular investment account.

28. The MFMA states in section 13(1) to (4) that all investments made in the name of the municipality should be made with a registered financial institution or a bank. The investment at Senwes disclosed at an amount of R15 919 in note 8 to the financial statements does not represent an investment type listed in the Government Gazette (1 April 2005) and therefore the municipality did not adhere to the said legislation.

29. The municipality did not maintain full and proper records in terms of section 62(1)(b) of the MFMA and did not always submit information, returns, documents, explanations and motivations as required by this office in accordance with section 74(1) of the said act.

The municipality did not provide adequate supporting documentation regarding the conversion from IMFO to GRAP/GAMAP, events after the reporting date, comparative figures, property, plant and equipment, irregular and unauthorised expenditure, payables, revenue and VAT.

30. Section 112(1)(c) of the MFMA requires that the supply chain management policy of a municipality be fair, equitable, transparent, competitive and cost-effective and comply



with a prescribed regulatory framework for municipal supply chain management and must cover the procedures and mechanisms for each type of process. The supply management policy adopted by the municipality is a generic guideline as provided in the Government Gazette No. 27636 Vol. 479 dated 30 May 2005 that has not been tailored to the internal processes and procedures to be followed for the awarding of contracts within the municipality.

#### **Value-Added Tax Act, 1991, (Act No. 89 of 1991) (VAT act)**

31. Contrary to the prescripts of the VAT act, several instances were identified where consumer deposits were utilised to clear outstanding debt, but output VAT was not declared to the South African Revenue Service.
32. Several instances were found where input VAT was incorrectly calculated or claimed.

#### **Income Tax Act, 1962 (Act No. 58 of 1962)**

33. I could not be provided with sufficient evidence that employee's tax was deducted from leave encashments paid to employees during the year under review. This constitutes a contravention of the Income Tax Act, 1962.

#### **Water Services Act, 1997 (Act No.108 of 1997)**

34. In terms of the prescripts of section 15(5) of the Water Services Act, 1997 every municipality must, as part of its Integrated Development Plan (IDP), have a water services development plan. The plan must comply with the minimum requirements set out in section 13 of the Act. I considered the 2006/07 IDP of the municipality and could not identify any plan therein that constitutes a water services development plan as prescribed by the legislation.

#### **Municipal Systems Act, 2000 (Act No. 32 of 2000)**

35. According to section 11(3)(a) of the Municipal Systems Act, 2000, regulations, plans and policies should be established, approved and implemented by the municipality that should govern the different processes and activities of the municipality. Notwithstanding, it was noted that the municipality has not established or implemented formally documented and approved policy frameworks for the financial transactions and events related to several important business processes.

My audit report on the financial statements for the year ended 30 June 2006 dated 31 May 2007 was modified accordingly.

#### **Matters of governance**

##### **Audit committee**

36. I could not be provided with sufficient audit evidence to confirm that the audit committee charter, which should establish the committee's status, authority and terms of reference, had been approved by the council. Furthermore, it was found that the audit committee did not substantially fulfill its responsibilities for the year as set out in section 166(2) of the MFMA.

## **Internal audit**

37. Contrary to the requirements of section 165(2) of the MFMA and the Standards for the Professional Practice of Internal Auditing, various deficiencies were noted which indicate that internal audit did not substantially fulfill its responsibilities for the year as set out in section 165(2) of the MFMA.

## **Risk management and assessment**

38. Neither a formally documented and approved risk management strategy and risk assessment plan nor a fraud prevention plan existed during the year under review, resulting in risks not being identified or assessed by management and the risk that fraud might not be prevented or detected timeously.

## **Submission of Annual Financial Statements**

39. The accounting officer of Letsemeng Local Municipality did not submit the annual financial statements to my office within two months after the end of the financial year as required by section 126(1)(a) of the MFMA. The financial statements were only submitted on 15 January 2008.

## **PROPAC resolutions not actioned**

40. I could not be provided with appropriate evidence that the PROPAC resolutions detailed below have been substantially implemented by the municipality.
- (a) Resolution 44/2006, par 1: The committee noted that accounts are not issued for all municipal owned properties and recommended that that accounting officer should ensure that rental contracts are available for all such properties to enable the accounts issued for rental to be verified. As reported in paragraph 19 of this report, I could not be provided with lease contracts to support rental income.
  - (b) Resolution 44/2006, par 2: The committee recommended that physical asset verification procedures be conducted on an annual basis and that assets are identified with unique numbers to enable these to be traced to the asset register. With reference to paragraph 7(b) of this report, this resolution has not been implemented by Letsemeng Local Municipality.
  - (c) Resolution 44/2006, par 4: The committee expressed concern that not all rateable property appears in the valuation roll and recommended that the accounting officer ensure that the valuation roll is complete. With reference to paragraph 18 of this report, the completeness and accuracy of the valuation roll and consequently the revenue from property rates for the year could not be confirmed.
  - (d) Resolution 22/2007, par 2: The committee expressed concern regarding the fact that municipalities still experience difficulty in compiling financial statements, converting financial statements to GRAP and GAMAP and ensuring the submission of accurate financial statements within the legislated deadline. As reported in paragraph 5 of this report, the effect of unsupported journal entries passed to effect the conversion from IMFO to GRAP/GAMAP resulted in a material limitation of scope on the audit. Furthermore, with reference to paragraph 39 of this report, the municipality failed to submit accurate financial statements within the legislated deadline.
  - (e) Resolution 56/2005 and resolution 22/2007, paragraph 3: The committee noted that various accounting officers have not implemented the necessary policies. The findings

reported in paragraph 35 of this report and an evaluation of the control environment contradicts the representations made to the PROPAC by the management of Letsemeng Local Municipality that policies are in place and effective.

- (f) Resolution 51/2006 and resolution 24/2007: The committee expressed concern that accounting officers of municipalities do not implement effective control measures to exercise their responsibility for the financial administration of the municipality as envisaged in section 62 of the MFMA. The committee recommended that accounting officers must implement a policy on the processes and management of documentation as well as a filing system to ensure that information and documentation are properly safeguarded. It is evident from the findings reported in paragraphs 5 and 29 of this report that the municipality has not effectively implemented these resolutions.
- (g) Resolution 17/2006 and resolution 27/2007: The committee recommended that accounting officers of municipalities should ensure that the amount provided for reticulation losses in the budget is not excessive, monitor the reticulation losses on a continuous basis and take corrective measures in advance. The accounting officer has not implemented these resolutions since it was noted that the municipality does not monitor distribution and reticulation losses.
- (h) Resolution 28/2007: The committee noted with concern the low payment rate of debtors at various municipalities and recommended that accounting officers should launch public awareness campaigns to sensitise the public regarding the importance of paying for services rendered. Furthermore, accounting officers must ensure strict adherence to the credit control policy. It is evident from the increase in gross accounts receivable as disclosed in note 10 to the financial statements that the municipality did not effectively enforce its credit control policy during the year under review.

**Internal control**

41. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes of the matters indicated, as they relate to the five components of internal control. In some instances deficiencies exist in more than one internal control component.

Reporting item	Control environment	Assessment of risks	Control activities	Information and communication	Monitoring
<b>Basis for disclaimer of opinion</b>					
Material limitation of scope	X				
Comparative figures	X				
Property, plant and equipment			X	X	
Irregular expenditure			X		X

Reporting Item	Control environment	Assessment of risks	Control activities	Information and communication	Monitoring
Unauthorised expenditure			X		
Capital commitments				X	
Unspent conditional grants and receipts				X	
Consumer deposits				X	
Receivables			X		
Contingent liability				X	
Revenue			X	X	
Taxes and VAT			X		
Events after the reporting date	X				
Prior year financial statements qualified – not resolved					X
<b>Other matters</b>					
Non-compliance with applicable legislation		X			
Matters of governance		X			

### Control environment

42. The management of Letsemeng Local Municipality did not establish the key elements of a control environment necessary to achieve sound financial management which is the foundation for all components of internal control and for providing discipline and structure within the organisation. This resulted in an inadequate level of skill and knowledge to enable the financial statements and supporting records to be accurately prepared or reviewed in accordance with the applicable basis of accounting and is not indicative of a

supportive attitude towards internal control. This gave rise to fact that the financial statements are not auditable due to the fundamental differences in the audit trail of the municipality that can not be reconciled by management as well as to the incurrence of irregular expenditure where the procurement processes of the municipality has not adhered to.

### **Assessment of risks**

43. As is evident from the matters on which the disclaimer of opinion is based, a proper risk management process was not followed to achieve the desired outcomes of which, one should be proper record keeping and reporting. This gives rise to the management not being proactive in dealing with the risks and managements issues that the municipality faces and thus to ineffective and inefficient planning to address these issues.

### **Control activities**

44. The effectiveness of control activities over business and accountancy processes was not adequate. This is evident from the qualification matters reported as the objectives to ensure completeness and accuracy of information processing was not achieved.

### **Information and communication**

45. Evident from the qualification matters, relevant and reliable information and the communication of this information, essential to realising all Internal control objectives, was not maintained. Through this managements' ability to make appropriate decisions is questioned as it is affected by the quality of information. Appropriate, timely, current, accurate and accessible information was not available for management during the year under review upon which it could effectively manage the affairs of the municipality.

### **Monitoring controls**

46. The monitoring of controls that involves the assessment of the design and operation of controls on a suitable timely basis, and the taking of necessary actions, which also includes management and supervisory activities such as the review of reconciliations, comparisons between general ledger, sub-ledgers and registers etc. was not effective. This contributed hugely to the qualification matters reported as ongoing monitoring activities should cover all internal control components to involve actions against irregular, unethical, uneconomical, inefficient and ineffective internal control systems and separate evaluations to ensure that internal control achieves the desired results.

### **Unaudited supplementary schedules**

47. The municipality provided supplementary information in the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with GRAP 1: *Presentation of Financial Statements*. An accounting standard on the presentation of the budget information in the financial statements has not been developed by the local standard setter. In the absence of such a standard, I do not express an opinion on the budget information presented in the financial statements.

## **OTHER REPORTING RESPONSIBILITIES**

### **Reporting on performance information**

48. I have audited the performance information as set out on pages [xx] to [xx].

### **Responsibility of the accounting officer for the performance information**

49. 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**

50. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 646 of 2007*, issued in *Government Gazette No. 646 of 25 May 2007* and section 45 of the MSA.

51. 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.

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

## **Audit findings**

### **Non-compliance with regulatory requirements**

#### **Policies and procedures regarding performance information**

53. According to section 11(3)(a) of the Municipal Systems Act, 2000, regulations, plans and policies should be established, approved and implemented by the municipality that should govern the different processes and activities of the municipality. Contrary to this prescript, the municipality did not have an approved and implemented policy regarding the collection, reporting and review of performance information.

#### **Content of integrated development plan**

54. The key performance indicators set by Letsemeng Local Municipality did not include any general key performance indicators applicable to the municipality, as prescribed in terms of section 43(1) of the MSA.

#### **Internal auditing of performance measurements**

55. 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 in terms of section 45 of the MSA.

#### **Existence and functioning of a performance audit committee**

56. The Letsemeng Local Municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee.

**Measurable objectives not consistent**

**Measurable objectives are materially inconsistent between annual report and integrated development plan**

57. I draw attention to the fact that the measurable objectives reported in the annual report of Letsemeng Local Municipality are materially inconsistent when compared with the predetermined objectives as per the integrated development plan.

**APPRECIATION**

58. The assistance rendered by the staff of Letsemeng Local Municipality during the audit is sincerely appreciated.

*Auditor - General*  
Bloemfontein

5 November 2008



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