

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Dihlabeng Local Municipality, which comprise the statement of financial position as at 30 June 2011, 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 XX to XX.

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), the requirements of 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 the Republic 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 audit opinion.

Basis for qualified opinion

Property, plant and equipment

7. I was unable to verify the existence as well as rights and obligations of property, plant and equipment of R3 385 152 (2010: R4 872 474) included in the balance for property, plant and equipment at 30 June 2011 in the statement of financial position and note 4 to the financial statements, as the descriptions in the asset register were not detailed and specific enough to facilitate the verification and identification of these assets. The entity's records did not permit the application of alternative audit procedures regarding the existence of these assets.
8. Infrastructure assets with an unknown value that could not be traced to the asset register were identified within the municipal area. The completeness, valuation as well as rights and obligations of these assets could not be confirmed. I was not able to apply alternative procedures regarding the rights and completeness of these assets.

Qualified opinion

9. In my opinion, except for the possible 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 Dihlabeng 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

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

Restatement of corresponding figures

11. As disclosed in note 42 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.

Unauthorised expenditure

12. As disclosed in note 44 to the financial statements, unauthorised expenditure of R159 253 174 (2010: R68 142 162) was incurred on overspending the approved adjustment budget, mainly because expenditure on the impairment of debtors and depreciation was not budgeted for.

Fruitless and wasteful expenditure

13. As disclosed in note 45 to the financial statements, fruitless and wasteful expenditure of R1 670 934 (2010: R2 021 273) was incurred on interest and penalties, due to the late payment of outstanding accounts.

Irregular expenditure

14. As disclosed in note 46 to the financial statements, irregular expenditure of R16 389 077 (2010: R26 210 087) was incurred, as a proper tender process and a supply chain management (SCM) policy were not followed.

Additional matter

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

Unaudited supplementary schedules

16. 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

17. 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

Presentation of information

18. The reported performance against predetermined objectives was deficient in respect of the following criterion:

- The performance against predetermined objectives was not reported using the National Treasury guidelines.

19. The following audit finding relates to the above criterion:

- The annual performance report submitted by the municipality did not comply with the requirements of section 46 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA), as measures that will be taken to improve performance were not indicated.

Usefulness of information

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

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

21. The following audit findings relate to the above criteria:

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

22. The municipality did not report throughout on its performance against the planned development objectives, indicators and targets stated in the service delivery and budget implementation plan, as 22% of the planned indicators and targets were not consistent between planning and reporting documents.

Planned and reported targets not specific and measurable (measurability)

23. For the selected predetermined objectives, 38% of the targets were not specific and 33% were not measurable.

Planned targets not achieved

24. Of the total number of planned targets for the selected programmes, only 17% were achieved during the year under review. This means that 83% of the total planned targets were not achieved.

Reliability of information

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

- Validity: Actual reported performance has not occurred and does not pertain to the entity.

26. The following audit finding relates to the above criterion:

- For the selected programmes, the source information or evidence provided was incomplete, which placed a limitation on the scope of the audit.

Compliance with laws and regulations

Strategic planning and performance management

27. The accounting officer submitted the section 72 report to the mayor while no evidence could be obtained that the report had been submitted to the National Treasury and the provincial treasury in terms of section 72(1)(b) of the MFMA.

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 always submit the monthly budget statements to the mayor and/or the provincial treasury, as required by section 71(1) of the MFMA.

Annual financial statements and annual report

30. 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 in capital assets, current assets as well as irregular and unauthorised expenditure identified by the auditors were subsequently corrected, but the uncorrected material misstatements were included in the basis for the qualified of audit opinion paragraphs.

Audit committee

31. The audit committee did not function as required by section 166(2)(b) of the MFMA, in that the audit committee did not advise the council of the municipality on matters relating to performance management.

Procurement and contract management

32. Goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as per the requirements of SCM Regulations 19(a) and 36(1).
33. Service providers failed to declare their relationship to persons employed by the municipality, as per the requirements of SCM Regulation 13(c).

Human resource management

34. Senior managers directly accountable to the municipal manager signed annual performance agreements for the year under review, as required by section 57(1)(b) and 57(2)(a) of the MSA, but such agreements were not assessed.

Expenditure management

35. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
36. The accounting officer did not take reasonable steps to prevent unauthorised, fruitless and wasteful and irregular expenditure, as required by section 62(1)(d) of the MFMA.

Asset management

37. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system that accounted for the assets of the municipality, as required by section 63(2)(a) of the MFMA.
38. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of internal control for assets (including an asset register), as required by section 63(2)(c) of the MFMA.

INTERNAL CONTROL

39. 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

40. The accounting officer did in some instances not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls. An action plan was developed to address internal control deficiencies, but this plan was not implemented and monitored on a continuous basis.

Financial and performance management

41. Management and staff did not fulfil all their duties and responsibilities pertaining to financial and performance management. Proper controls over daily and monthly processing and reconciling of transactions were not evident in some instances. Systems were not appropriate to facilitate the preparation of the financial statements and performance reports.

Governance

42. The audit committee did not ensure that accountability and service delivery are achieved by evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment. This would include financial and performance reporting and compliance with laws and regulations.

Auditor-General
Bloemfontein

30 November 2011



AUDITOR - GENERAL
SOUTH AFRICA

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