

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 financial statements of the Dihlabeng 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 the cash flow statement 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 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 Dihlabeng Local Municipality as at 30 June 2012 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 42 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of errors discovered during the 2011-12 financial year in the financial statements of the municipality at, and for the year ended, 30 June 2011.

Irregular expenditure

9. The full extent of the irregular expenditure of R65 686 137, as disclosed in note 49 to the financial statements, is still being investigated by the municipality.

Fruitless and wasteful expenditure

10. As disclosed in note 48 to the financial statements, fruitless and wasteful expenditure of R9 857 254 was incurred due to creditors not being paid within 30 days and VAT 201 forms being submitted late.

Additional matter

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's *Framework for managing programme performance information*.
16. 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).
17. The material findings are as follows:

Usefulness of information

Presentation

18. The National Treasury's *Guide for the preparation of the annual report* requires that explanations for major variances between planned and reported actual targets be provided in all instances, which should also be supported by adequate and reliable corroborating evidence. Adequate and reliable corroborating evidence could not be provided for 22% of the major variances as disclosed in the annual performance report. The institution's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the validity of the reasons for major variances.

Consistency

19. Section 41(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) requires that the integrated development plan should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 78% of the reported objectives and indicators and 83% of the reported targets were not consistent with the objectives, indicators and targets as per the approved integrated development plan. This was due to the fact that there was no process or system to ensure that what was reported on in the service delivery and budget implementation plan or integrated development plan and the performance report was aligned and consistent.

Compliance with laws and regulations

20. 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:

Annual financial statements, performance report and annual report

21. 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 current assets, non-current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified opinion.
22. The annual report for the year under review does not include the report of the audit committee, as required by section 121(3)(j) of MFMA.

Audit committee

23. 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.
24. The audit committee did not review the annual financial statements to provide the council of the municipality with an authoritative and credible view of the financial position of the municipality, its efficiency and effectiveness and its overall level of compliance with the MFMA, DoRA and any other applicable legislation, as required by section 166(2)(b) of the MFMA.
25. 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 Municipal Planning and Performance Management Regulation 14(4)(iii).
26. The audit committee did not respond to the council on the issues raised in the audit reports of the auditor-general, as required by section 166(2)(c) of the MFMA.

Internal audit

27. The internal audit unit did not audit the results of performance measurements for the third and fourth quarters, as required by section 45(1)(a) of the MSA and Municipal Planning and Performance Management Regulation 14(1)(a).

Procurement and contract management

28. Goods and services with a transaction value below R200 000 were in some instances procured without obtaining the required price quotations, as required by Supply Chain Management Regulation 17(a) and (c).
29. Contracts and quotations were in some instances awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by Supply Chain Management Regulation 13(c).

Human resource management and compensation

30. The competencies of management officials were not assessed promptly in order to identify and address gaps in competency levels, as required by Municipal Regulation on Minimum Competency Levels 13.
31. The municipality did not submit the report on compliance with prescribed competency levels to the National Treasury and the relevant provincial treasury, as required by Municipal Regulation on Minimum Competency Levels 14(2)(a).

Expenditure management

32. 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.
33. An effective system of expenditure control was not in some instances in place, including procedures for the approval, authorisation, withdrawal and payment of funds, as required by section 65(2)(a) of the MFMA.
34. The accounting officer did not take effective steps to prevent irregular as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Asset management

35. An adequate management, accounting and information system was not in place to account for assets, as required by section 63(2)(a) of the MFMA.
36. An effective system of internal control was not in place for assets, as required by section 63(2)(c) of the MFMA.

Internal control

37. 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

38. The accounting officer did not take decisive action in response to the risk of non-compliance with the supply chain management policy and regulations, by implementing controls to prevent the occurrence of irregular as well as fruitless and wasteful expenditure.

39. The accounting officer did not exercise oversight responsibility regarding compliance with laws and regulations and related internal controls due to a lack of a compliance evaluation system, which resulted in non-compliance and irregular expenditure.
40. The accounting officer did not within 10 days of the end of each month, submit to the mayor a report describing the investment portfolio at the end of the month.

Financial and performance management

41. Management did not in all instances implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support performance reporting due to weakness in the design of internal control.

Governance

42. The council did not ensure that a performance audit committee was in place or that the established audit committee functioning as the performance audit committee served as an oversight function with regard to performance management.
43. The financial statements were not reviewed for accuracy and completion before submission to the auditors due to time pressure and insufficient time for proper review by the audit committee.

AUDITOR - GENERAL

Bloemfontein

25 January 2013



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence