



A U D I T O R - G E N E R A L
S O U T H A F R I C A

The Municipal Manager
Dhlabeng Local Municipality
P.O. Box 551
Bethlehem
9700

3 December 2013

Reference: 21389REG12/13

Dear Municipal Manager

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of the Dhlabeng Local Municipality for the year ended 30 June 2013

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
3. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
4. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.

5. Twenty (20) copies of the municipality's annual report should be submitted to my office once available.
6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely



S. Zwane
Senior Manager: Free State

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AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

**Report of the Auditor-General on the
financial statements and other legal and
regulatory requirements of Dihlabeng
Local Municipality for the year ended
30 June 2013**

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of Dihlabeng 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, cash flow statement and appropriation 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, 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 unqualified audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of Dihlabeng 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 matter

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

Restatement of corresponding figures

8. As disclosed in note 41 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered during the 2012/13 financial year in the financial statements of the municipality at, and for the year ended, 30 June 2012.

Material losses/impairments

9. As disclosed in note 3 to the financial statements, material losses to the amount of R58 381 254 were incurred as a result of a write-off of irrecoverable trade debtors.

Additional matter

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

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 service delivery 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. Measures to improve performance for a total of 100% of the planned targets not achieved were not reflected in the annual performance report. This was due to the lack of review of reported performance information by senior management and the audit committee.

16. 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. Adequate and reliable corroborating evidence could not be provided for 100% measures taken to improve performance as disclosed in the annual performance report. The municipal records did not permit the auditors to include the applicable and relevant reasons why misstatement had occurred.
17. The MSA, section 41(c) requires that the integrated development plan should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported objectives are not consistent with the objectives as per the approved integrated development plan. This was due to the lack of review of reported performance information by senior management and the audit committee.
18. The National Treasury FMPPI requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 44% of the targets and significantly important targets in relation to the overall mandate of the entity were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that the review of the performance indicators and targets was not appropriately scheduled and performed to ensure that predetermined indicators and targets are specific, measurable, achievable, relevant, and time-bound in terms of section 41(1b) of the MSA and the FMPPI.
19. The National Treasury FMPPI requires that performance targets be measurable. The required performance could not be measured for a total of 40% of the targets and significantly important targets in relation to the overall mandate of the entity. This was due to the fact that the review of the performance indicators and targets was not appropriately scheduled and performed to ensure that predetermined indicators and targets are specific, measurable, achievable, relevant, and time-bound in terms of section 41(1b) of the MSA and the FMPPI.
20. The National Treasury FMPPI requires that indicators/measures should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 90% of the indicators and significantly important indicators in relation to the overall mandate of the entity 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 fact that the review of the performance indicators and targets was not appropriately scheduled and performed to ensure that predetermined indicators and targets are specific, measurable, achievable, relevant, and time-bound in terms of section 41(1b) of the MSA and the FMPPI.
21. The National Treasury FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. A total of 100% of the indicators and significantly important indicators in relation to the overall mandate of the entity were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the fact that the review of the performance indicators and targets was not appropriately scheduled and performed to ensure that predetermined indicators and targets are specific, measurable, achievable, relevant, and time-bound in terms of section 41(1b) of the MSA and the FMPPI.

Reliability of information

22. The FMPPI 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.

23. 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 Public Works and Community Service. This was due to limitations placed on the scope of my work due to the fact that the institution could not provide sufficient appropriate evidence in support of the information presented with respect to both programmes.

Additional matter

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

Achievement of planned targets

24. Of the total number of 126 targets planned for the year, 81 of targets were not achieved during the year under review. This represents 64% of total planned targets that were not achieved during the year under review. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process.

Compliance with laws and regulations

25. 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

26. The municipality did not set key performance indicators, including input indicators, output indicators and outcome indicators, in respect of each of the development priorities and objectives set out in the IDP, as required by section 41(1)(a) of the Municipal Systems Act and the Municipal planning and performance management regulation 1 and 9(1)(a).
27. The municipality did not have and maintain effective, efficient and transparent systems of financial and risk management and internal controls as required by section 62(1)(c)(i) of the MFMA.

Annual financial statements, performance and annual reports

28. The financial statements submitted for auditing were in some instances 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 and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.
29. The accounting officer did not make public the council's oversight report on the 2011/12 annual report within seven days of its adoption, as required by section 129(3) of the MFMA.

Audit committee

30. 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.

31. 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 legislation, as required by section 166(2)(b) of the MFMA.
32. 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.
33. The audit committee did not advise the council on matters relating to performance management as required by section 166(2)(a) of the MFMA.
34. The audit committee did not review all the quarterly internal audit reports on performance measurement, as required by Municipal planning and performance management regulation 14(4)(a)(i).
35. 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)(a)(iii).
36. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.

Procurement and contract management

37. Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act and CIDB regulation 18.

Asset management

38. An effective system of internal control for assets (including an asset register) was not in place, as required by section [63(2)(c) / 96(2)(b)] of the MFMA.

Human resource management and compensation

39. Job descriptions were not established for all posts in which appointments were made in the current year, in contravention of section 66(1)(b) of Municipal Systems Act.
40. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury as required by the Regulations on Minimum Competency Levels reg14(2)(a).
41. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies as required by the Regulations on Minimum Competency Levels reg14(2)(b).

Expenditure management

42. 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.
43. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure, fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Internal control

44. I considered internal controls 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

45. The accounting officer did not exercise oversight responsibility regarding compliance with laws and regulations and related internal controls due to lack of compliance evaluation system, which resulted in non-compliance, unauthorised expenditure, irregular expenditure as well as fruitless and wasteful expenditure.
46. There is a slow response to the message communicated by the AGSA to the administrative and political leadership.

Financial and performance management

47. The financial statements were subjected to material corrections resulting from the audit process, which are attributable to weaknesses in the design and implementation of internal control in respect of financial management and financial reporting and weaknesses in the information systems of the municipality.
48. Management had still not appointed the IT manager to take up the responsibility due to council freezing all posts advertised. This resulted in lack of policies and procedures to manage network security, user access and IT service continuity leading to the findings raised.

Governance

49. 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

30 November 2013



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence