

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE AND THE COUNCIL ON MOGALAKWENA MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Mogalakwena Municipality, which comprise the statement of financial position as at 30 June 2010, and 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) and in the manner required by the Municipal Finance Management Act of South Africa, 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; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution 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), 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 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. 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.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Mogalakwena Municipality for the year ended 30 June 2010 and its financial performance and its cash flows for the year then ended, in all material respects, in accordance with the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and in the manner required by the MFMA.

Emphasis of matter

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

Significant uncertainties

9. With reference to note 50 to the financial statements, the municipality is the defendant in several contractual lawsuits. The municipality is opposing the claims of R33,6 million and the ultimate outcome of the matters cannot presently be determined.

Unauthorised expenditure

10. As disclosed in note 44.1 to the financial statements unauthorised expenditure to the amount of R12 million was incurred due to overspending of the budget of the municipality.

Irregular expenditure

11. As disclosed in note 44.3 to the financial statements, irregular expenditure to the amount of R29 million was incurred, as proper tender processes had not been followed.

Restatement of corresponding figures

12. As disclosed in note 40 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of an error discovered during 2010 in the financial statements of the municipality at, and for the year ended, 30 June 2009.

Additional matters

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

Unaudited supplementary schedules

13. The supplementary information set out on pages XXX to XXX 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

14. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations and financial management (internal control).

Predetermined objectives

15. The municipality did not submit a draft annual performance report in terms of section 46 of the MSA, and section 121(3)(c) of the MFMA.

Non-compliance with regulatory and reporting requirements

Existence and functioning of a performance audit committee

16. The municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee, as required by regulation 14(2) of the Municipal Planning and Performance Management Regulations, 2001.

Internal auditing of performance measurements

17. 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 Municipal System Act (MSA).

Usefulness of reported performance information

The following criteria were used to assess the usefulness of the planned and reported performance:

- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved [strategic plan/corporate plan/annual performance plan/integrated development plan], i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?

The following audit findings relate to the above criteria:

Performance measurement

18. The municipality set key performance indicators (KPIs), including input indicators, output indicators and outcome indicators, not in line with development priorities and objectives as set out in the integrated implementation plan (IDP).

Lack of implementation of a performance management system

19. The accounting officer of the did not assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan, as required by section 72 of the MFMA.

Incomplete reporting on all predetermined objectives, indicators and targets

20. The actual achievements with regard to all planned indicators and targets specified in the integrated development plan for the year under review, for the selected objectives were not reported in the annual performance report.

Compliance with laws and regulations**MFMA****Expenditure was incurred otherwise than in accordance with section 15 and 11(3) of the MFMA resulting in unauthorised expenditure**

21. Contrary to section 1 of the MFMA, the municipality incurred unauthorised expenditure.

Expenditure was incurred in contravention of or not in accordance with applicable legislation resulting in irregular expenditure.

22. Contrary to section 1 of the MFMA expenditure was not incurred in accordance with the requirements of the supply chain management policy of the municipality.

The accounting officer and municipal officials did not adhere to his statutory responsibilities

23. Contrary to section 62(1) (d) of the MFMA, the accounting officer did not comply with his legislative responsibilities to implement effective, efficient and transparent process of financial and risk management to prevent and detect unauthorised expenditure and irregular expenditure.
24. Contrary to section 62(1) of the MFMA, the accounting officer did not comply with his/her legislative responsibility of managing the financial administration of the municipality by not taking reasonable steps to ensure that full and proper records of the financial affairs of the municipality were kept in accordance with any prescribed norms and standards. Supporting documentation to certain financial information was not available and transactions were processed without approvals.

25. Contrary to section 78(1), a senior manager or an official of the municipality exercising financial management responsibilities did not take reasonable steps within his/her areas of responsibility to ensure that all revenue due to the municipality was collected, action was not taken to recover long overdue debtors.

Municipal System Act of South Africa, No 32 of 2000 (MSA)

26. Contrary to the requirements set out in section 46(1) (a) of MSA, the accounting officer did not ensure that the performance information report is prepared and submitted for audit purpose.

INTERNAL CONTROL

27. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA and MSA, but not for the purpose of expressing an opinion on the effectiveness of internal control.
28. The matters reported below are limited to the significant deficiencies regarding the basis for the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

- **Leadership**

- Oversight responsibility*

- The accounting officer does not evaluate whether management has implemented effective internal controls by gaining an understanding of how senior management has met its responsibilities.

- Actions to mitigate risks*

- Management does not have sufficient policies and procedures in place to guide the operations of the municipality and as a result numerous instances of non-compliance with laws and regulations took place

- **Financial and performance management**

- Quality of the financial statements*

- The financial statements were subject to various material amendments resulting from the audit.

- Proper record keeping*

- Various misstatements were identified in the financial statements due to the auditor being unable to obtain sufficient appropriate audit evidence, due to the documentation or information requested not having been made available by management:

Adequate systems

User access controls, through which the municipality ensures that only valid and authorised users are allowed access to initiate and approve transactions on the system and that user access is adequately segregated when transactions are captured and approved, were not adequately designed

- **Governance**

Fraud prevention

The municipality does not have a fraud reporting mechanism.

Internal audit

Ongoing monitoring and supervision is not undertaken to enable an assessment of the effectiveness of internal control over financial and performance reporting.

Audit committees

The audit committee did not sufficiently review the adequacy, reliability and accuracy of the annual financial statements and predetermined objectives prior to submission to the Auditor-General, because the municipality did not give the committee sufficient time to carry out its responsibilities.

Auditor-General

Polokwane

30 November 2010



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence