

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND THE COUNCIL ON THE XHARIEP DISTRICT MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Xhariep District 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 ... to

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 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, 2009 (Act No. 12 of 2009) (DoRA). 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), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and section 126(3) of the MFMA, 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.

Basis for qualified opinion

Irregular expenditure

7. The following irregular expenditure totalling R2 122 637 was not disclosed in note 30.3 to the financial statements as required by section 125(2)(d) of the MFMA:
 - Contrary to the supply chain management policy, the required number of quotations or evidence of a valid deviation was not available for payments totalling R287 124.
 - Information concerning the preconditions that must be complied with in terms of the supply chain management policy was not obtained for quotations and bids amounting to R1 139 139.
 - Contrary to the supply chain management policy, evidence could not be obtained that the preference point system had been used for payments totalling R696 374.
8. The supply chain management policy also states that the accounting officer must record the reasons for any deviations and include this in a note to the annual financial statements. Deviations amounting to R237 580 were not disclosed in a note to the financial statements.

Accumulated surplus

9. Included in the accumulated surplus of R27 034 508 at 30 June 2010, as presented in the statement of financial position, are appropriations from the prior year's annual financial statements amounting to R491 622. Sufficient appropriate audit evidence could not be obtained to confirm the existence, valuation, allocation and completeness of the appropriation amounting to R491 622 relating to the write-off of suspense accounts. The municipality's accounting records did not permit the application of reasonable alternative audit procedures, as there was no system of control over suspense accounts.

Qualified opinion

In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, these financial statements present fairly, in all material respects, the financial position of the Xhariep District Municipality as at 30 June 2010 and its financial performance and its cash flows for the year then ended in accordance with the SA Standards of GRAP are prepared, in all material respects and in the manner required by the MFMA and DoRA.

Emphasis of matters

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

Restatement of corresponding figures

10. As disclosed in note 28 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of errors discovered during the 2009-10 financial year in the financial statements of the Xhariep District Municipality at, and for the year ended, 30 June 2009.

Irregular expenditure

11. As disclosed in note 30.3 to the financial statements, irregular expenditure to the amount of R1 753 005 was incurred, as proper procurement processes had not been followed.

Unauthorised expenditure

12. As disclosed in note 29 to the financial statements, unauthorised expenditure to the amount of R2 934 185 was incurred, as the actual expenditure incurred exceeded the budget vote.

Additional matters

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

Unaudited supplementary schedules

13. The appendices set out on pages XX to XX do not form part of the financial statements and are presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

Supplementary explanations of budget variances presented outside the financial statements

14. The supplementary explanations of budget variances contained in the supplementary schedules as referred to in note 41 to the financial statements do not form part of the financial statements. I have not audited these explanations and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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 MFMA, DoRA, and the Local Government: Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA), and financial management.

Predetermined objectives

Non-compliance with regulatory and reporting requirements

Internal auditing of performance measurements

15. The internal audit section did not audit the performance measurements on a continuous basis and did not submit quarterly reports on their audits as required by section 45 of the MSA.

Performance audit committee did not review performance measurements

16. The performance audit committee did not review the quarterly reports of the internal auditors on their audits of the performance measurements of the municipality and submit an audit report to the council regarding the performance management system at least twice during the financial year, as required by regulation 14(4) of the Municipal Planning and Performance Management Regulations, 2001.

Development priorities and objectives

17. The integrated development plan did not reflect the council's development priorities and objectives for its elected term, including its local economic development aims and its internal transformation needs, as required by section 26 of the MSA.

Key performance indicators and targets

18. The integrated development plan of the municipality did not include the key performance indicators and performance targets in terms of its performance management system, as required by sections 26(i) and 43(1) of the MSA.

No strategic plan

19. The municipal council did not within a prescribed period after the start of its elected term, adopt a single, inclusive and strategic plan for the development of the municipality as required by section 25(1) of the MSA.

Compliance with laws and regulations

The audit committee was not functioning properly

20. It could not be confirmed whether the audit committee had advised the council on matters relating to internal financial control and internal audits as required by section 166(2)(a) of the MFMA.
21. Contrary to the requirements of section 166(2)(c) of the MFMA, the audit committee did not respond to the council on the audit findings raised in the prior financial year.

Expenditure was not paid within the parameters set by the MFMA

22. According to section 65(2)(e) of the MFMA, the accounting officer of a municipality must ensure that all money owing by the municipality is paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure. In respect of payments totalling R331 365, I was unable to confirm that payments had been made within the prescribed period.

The accounting officer did not adhere to his statutory responsibilities

23. Contrary to the requirements set out in section 62(1)(d) of the MFMA, the accounting officer did not comply with his legislative responsibilities of managing the financial administration of the municipality, as he did not take reasonable steps to ensure that irregular expenditure was prevented.

Financial statements submitted for auditing were not a fair reflection of the transactions

24. The municipality did not prepare financial statements that fairly presented the state of affairs of the municipality; its performance against its budget; its management of revenue, expenditure, assets and liabilities; its business activities, its financial results; and its financial position as at the end of the financial year as required by section 122(1) of the MFMA, as several amendments had to be made to the financial statements that were submitted on 31 August 2010.

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

25. Expenditure of R3 875 642 was incurred which was not in accordance with the requirements of the municipality's supply chain management policy, resulting in irregular expenditure as defined in section 1 of the MFMA.

Expenditure was incurred otherwise than in accordance with section 15 of the MFMA resulting in unauthorised expenditure

26. Contrary to section 15 of the MFMA expenditure of R2 934 185 was not incurred in accordance with the approved budget of the municipality and exceeded the limits of the amounts appropriated for the different votes in the approved budget of the municipality.

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, MSA and DoRA, 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 qualified opinion paragraphs, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

Leadership

29. The accounting officer did not prioritise and take appropriate action to address the lack of discipline in the finance and supply chain management directorates, resulting in non-compliance with applicable legislation and inadequate budget control measures. This, in turn, resulted in irregular, fruitless and wasteful as well as unauthorised expenditure.

Financial and performance management

30. The financial statements were subject 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.
31. The work of the third party that completed the financial statements was not reviewed for completeness and accuracy prior to submission for auditing.

Governance

32. The risk assessment performed for the 2009-10 financial year was not approved by the municipal manager and therefore management could not respond to assessed risks through determining a risk strategy and action plan to manage identified risks. Consequently, internal controls were not selected and developed to prevent, detect and correct material misstatements in financial reporting and reporting on predetermined objectives.

Bloemfontein

30 November 2010



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

Auditing to build public confidence

