

# 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 2011, 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 83 to 129

### 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) 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 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 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 that the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence for 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 Xhariep District Municipality as at 30 June 2011 and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

### Emphasis of matters

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

#### Irregular expenditure

9. The municipality incurred irregular expenditure of R12 048 766 (2010: R1 803 550) as proper procurement processes had not been followed as required by the supply chain management (SCM) regulations.

## **Financial sustainability**

10. As disclosed in note 42 to the financial statements, the municipality might experience difficulties as a formal guarantee could not be provided to confirm that the municipality will be receiving grants from CoGTA and the provincial treasury to maintain their operations. The municipality also did not settle its debt within 30 days as required by the MFMA and is significantly dependent on the national and provincial governments for its continued sustainability. These conditions, along with other matters, point to the existence of a material uncertainty that may cast significant doubt on the municipality's ability to continue as a going concern. The municipality may, therefore, be unable to realise its assets and discharge its liabilities in the normal course of business.

## **Additional matters**

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 130 to 136 does not form part of the financial statements and is presented as additional information. I have not audited these annexures and, accordingly, I do not express an opinion thereon.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

13. 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 material non-compliance with laws and regulations applicable to the municipality.

## **Predetermined objectives**

14. There are no material findings on the annual performance report.

## **Compliance with laws and regulations**

### **Annual financial statements, performance and annual reports**

15. 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 liabilities, expenditure and disclosure items identified by the auditors were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.

## **Expenditure management**

16. 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.

17. The accounting officer did not take reasonable steps to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

## **Audit committees**

18. The municipality did not have an audit committee in operation for a significant part of the financial year and as a result the audit committee did not substantially fulfil its responsibilities for the year, as required by section 166(1) of the MFMA.

19. The performance audit committee or another committee functioning as the performance audit committee did not perform the following, as required by Municipal Planning and Performance Management Regulation 14:

- Meet at least twice during the financial year
- Review the quarterly reports of the internal auditors on their audits of the performance measurements of the municipality
- Review the municipality's performance management system and make recommendations in this regard to the council of the municipality
- Submit an auditor's report to the council regarding the performance management system at least twice during the financial year.

## **Internal audit**

20. The internal audit unit did not substantially fulfil its responsibilities and did not function as required by section 165(2) of the MFMA for the financial year as the internal auditor was suspended for the period 28 September 2010 to 26 January 2011 and the position was then vacant until 4 April 2011. Internal audit reports were therefore only reported to the audit committee meeting held on 26 to 27 August 2010.
21. The internal auditors of the municipality did not audit the performance measurements on a continuous basis and no evidence could be obtained that quarterly reports for the first and second quarters of the 2010-11 financial year were submitted to the municipal manager and the performance audit committee, as required by Municipal Planning and Performance Management Regulation 14.

## **Procurement and contract management**

22. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) and (c).
23. The preference point system was not applied in all procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) and SCM regulation 28(1)(a).
24. Awards were made to providers whose tax matters had not been declared by the South African Revenue Services to be in order, as required by SCM regulation 43.
25. Awards were made to suppliers who did not submit a declaration on their employment by the state or their relationship to a person employed by the state as per the requirements of SCM regulation 13(c).

## **INTERNAL CONTROL**

26. 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 findings arising from the audit of compliance with laws and regulations included in this report.

## **Leadership**

27. The accounting officer did not take appropriate action to address the lack of discipline in the finance and SCM directorates, resulting in non-compliance with applicable legislation. This, in turn, resulted in irregular expenditure.

## **Financial and performance management**

28. The accounting officer did not regularly review and monitor management's compliance with laws, regulations and internally designed policies and procedures. As a result, significant non-compliance issues were noted that could have been prevented.

## Governance

29. Internal controls were not selected and developed to adequately prevent, detect and correct material non-compliance with laws and regulations.
30. The audit committee did not function throughout the year as the audit committee was dissolved during December 2011 and the first meeting after the new audit committee was established, was in 1 July 2011.

Bloemfontein

30 November 2011



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

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