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**AUDITOR-GENERAL  
SOUTH AFRICA**

# **AUDITOR'S REPORT**

REPORT OF THE AUDITOR-GENERAL TO BUSHBUCKRIDGE LOCAL MUNICIPALITY ON  
TH FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR  
ENDED 30 JUNE 2009

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Bushbuckridge Local Municipality which comprise the balance sheet as at 30 June 2009, and the income statement, and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 14 to 32.

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation of these financial statements in accordance with the entity-specific basis of accounting, as set out in accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act (Act No. 1 of 2007) (DoRA).

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) , my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. 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 OFR QUALIFIED OPINION

Fixed assets

7. The fixed asset register does not include a list of land or farms owned by the municipality and as a result no land values are included in the valuation roll. Consequently, I could not determine the existence, completeness and valuation of land for inclusion in annexure C.

## Revenue - Suspension of assessment rates

8. According to section 3 of the Municipal Property Rates Act, a municipality must exercise its power to levy a rate on property, subject to the property rates policy which must be adopted in terms of section 3 of the Municipal Property Rates Act. Residential properties as well as certain business properties for the year under review were suspended from assessment rates. Since this suspension is not stipulated in the property rates policy of the municipality, it therefore contravenes with the Municipal Property Rates Act, section 3 and its property rates policy. Consequently, I could not determine the completeness of assessment rates included in the financial statements.

## Ageing of debtors

9. The accuracy of the debtor age analysis could not be determined due to unallocated receipt to the amount of R3 549 983. As a consequence, I was unable to determine the accuracy of the ageing of the consumer debtors included in note 6 of the financial statements.

## OPINION

10. In my OpinION, except for the possible effects of the matters described in the Basis for qualified opinion paragraphs. these financial statements of the Bushbuckridge Local Municipality have been prepared, in all material respects, in accordance with the basis of accounting as set out in accounting policy note 1 to the financial statements and in the manner required by the MFMA and DoRA.

## EMPHASIS OF MATTERS

Without qualifying my opinion, I draw attention to the following matters on which I do not express a qualified opinion:

## Going concern

11. The income statement indicates that the Bushbuckridge Local Municipality incurred a net loss of R172 669 998 during the year ended 30 June 2009 and, as of that date, the entity's current liabilities exceeded its total assets by R170 576 843. The Municipality has been unable to increase its debt collection and incurred negative operating cash flows of R230 783,717. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern.

## Basis of accounting

12. As set out in accounting policy note 1, the annual financial statements have been prepared so as to confirm with the standards laid down by the Institute for Municipal Financial Officers in the Code of Practice (1997) and the Report of Annual Financial Statements (2<sup>nd</sup> edition. January 1996).

## Restatement of corresponding figures

13. As disclosed in note 32 to the financial statements, the corresponding figures for 30 June 2008 have been restated as a result of an error discovered during 2008/9 in the financial statements of the Bushbuckridge Local Municipality at, and for the year ended 30 June 2008.

## OTHER MATTERS

## Unaudited supplementary schedules

14. The budget information published alongside actual figures and the supplementary information set out on pages 33 to 38 does not form part of the financial statements and is

presented as additional information. I have not audited this/these schedule(s) and accordingly I do not express an opinion thereon.

**Non-compliance with applicable legislation**

- 15. The valuation roll was last updated in 2004. In terms of the Municipal Property Rates Act, section 77, the valuation roll should be updated annually, by way of a supplementary valuation roll in terms of section 78 or with amendments in terms of section 79.  
The valuation roll should also be updated at least every four years. It has been more than 4 years since the previous valuation roll's details were amended/updated.

**Governance framework**

- 16. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below:

**Internal control deficiencies**

- 17. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the deficiencies in the system of internal control, which led to the qualified opinion. The root causes are categorised according to the five components of an effective system of internal control. In some instances deficiencies exist in more than one internal control component.

Par. no.	Basis for qualified opinion	CE	RA	CA	IC	M
9	Land and farms owned by the municipality are not included in the fixed asset register or the general ledger	5				3
10	Assessment rates have not been levied to households and certain businesses			5		
12	Accuracy of the debtors' analysis			5		

(CE) Control environment: Establishes the foundation for the internal control system by providing fundamental discipline and structure for financial reporting.

(RA) Risk assessment: Involves the identification and analysis by management of relevant financial reporting risks to achieve predetermined financial reporting objectives.

(CA) Control activities: Policies, procedures and practices that ensure that management's financial reporting objectives are achieved and financial reporting risk mitigation strategies are carried out.

(IC) Information and communication: supports all other control components by communicating control responsibilities for financial reporting to employees and by providing financial reporting information in a form and time frame that allows people to carry out their financial reporting duties.

(M) Monitoring: Covers external oversight of internal controls over financial reporting by management or other parties outside the process, or the application of independent methodologies, like customised procedures or standards checklists by employees within a process.

The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting. Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting. Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel.

Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting.	4
The accounting officer/accounting authority does not exercise oversight responsibility over financial reporting and internal control.	5
Management's philosophy and operating style do not promote effective control over financial reporting.	6
The entity does not have individuals competent in financial reporting and related matters.	7
<b>Material Risk assessment</b>	
Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting.	1
The entity does not identify risks to the achievement of financial reporting objectives.	2
The entity does not analyse the likelihood and impact of the risks identified.	3
The entity does not determine a risk strategy/action plan to manage identified risks.	4
The potential for material misstatement due to fraud is not considered.	5
There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation.	1
General information technology controls have not been designed to maintain the integrity of the information system and the security of the data.	2
Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.	3
Actions are not taken to address risks to the achievement of financial reporting objectives.	4
Control activities are not selected and developed to mitigate risks over financial reporting.	5
Policies and procedures related to financial reporting are not established and communicated.	6
Realistic targets are not set for financial performance measures, which are in turn not linked to an effective reward system.	7
Pertinent information is not identified and captured in a form and time frame to support financial reporting.	1
Information required to implement internal control is not available to personnel to enable internal control responsibilities.	2
Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel.	3
Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.	1
Neither reviews by internal audit or the audit committee nor self -assessments are evident.	2
Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.	3

## Key governance responsibilities

18. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	X	
2.	The financial statements were not subject to any material amendments resulting from the audit.	X	
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	X	
4.	The annual financial statements were submitted for auditing as per the legislated deadlines section 126 of the MFMA.	X	
5.	Key officials were available throughout the audit process.	X	
6.	Audit committee		
	The municipality had an audit committee in operation throughout the financial year.	X	
	The audit committee operates in accordance with approved, written terms of reference.	X	
	The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.	X	
7.	Internal audit		
	The municipality had an internal audit function in operation throughout the financial year.	X	
	The internal audit function operates in terms of an approved internal audit plan.	X	
	The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.	X	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		X
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		X
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	X	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(c)(i)/95(c)(i) of the MFMA.		X
12.	Delegations of responsibility are in place, as set out in section 79/106 of the MFMA.		
13.	The prior year audit findings have been substantially addressed.		X
14.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	X	
15.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.	X	
16.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the [entity name] against its mandate, predetermined objectives, outputs, indicators and targets section 68/87 of the MFMA .	X	
17.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.		X

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

## Report on performance information

19. I have reviewed the performance information as set out on pages xx to xx.

## The accounting officer's responsibility for the performance information

20. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

21. In terms of section 121(4)(d) of the MFMA, the annual report of a municipal entity must include an assessment by the entity's accounting officer of the entity's performance against any measurable performance objectives, set in terms of the service delivery agreement or other agreement between the entity and its parent municipality.

#### The Auditor-General's responsibility

22. I conducted my engagement in accordance with section 13 of the PM read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.
23. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
24. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

### AUDIT FINDINGS

#### NON-COMPLIANCE WITH REGULATORY REQUIREMENTS

##### Quarterly reporting on performance information not submitted to council

25. Quarterly reports on the progress in achieving measurable objectives and targets were prepared by the municipality to facilitate effective performance monitoring, evaluation and corrective action but was not submitted to council as required by the MSA, sect. 41 ( e).

##### Internal auditing of performance measurements

26. The internal auditors of the municipality did not audit the performance measurements on a continuous basis and/or did not submit quarterly reports on their audits to the municipal manager and the performance audit committee.

##### No mid-year budget and performance assessments

27. The accounting officer of the municipality did not by 25 January 2009, 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.

##### Usefulness and reliability of reported performance information

28. The following criteria were used to assess the usefulness and reliability of the information on the municipality's performance with respect to the objectives in its annual performance plan:
  - Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan?
  - Relevance: Is the performance information as reflected in the indicators and targets clearly linked to the predetermined objectives and mandate. Is this specific and measurable, and is the time period or deadline for delivery specified?
  - Reliability: Can the reported performance information be traced back to the source data or documentation and is the reported performance information accurate and complete in relation to the source data or documentation?

The following audit findings relate to the above criteria:

**Inconsistently reported performance information**

29. The municipality has not reported on its performance with regard to all of its indicators and targets as per the approved integrated development plan. No evidence could be provided that these changes had been approved.
30. Certain objectives, performance indicators and targets in the annual performance report were found to be inconsistent or not aligned with the approved integrated development plan.

**APPRECIATION**

31. The assistance rendered by the staff of the Bushbuckridge Local Municipality during the audit is sincerely appreciated.

*Auditor-General*

Nelspruit

30 November 2009



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