

# Report of the auditor-general to the Limpopo provincial legislature and the council on Fetakgomo Local Municipality

## Report on the financial statements

### Introduction

1. I have audited the financial statements of the Fetakgomo Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as 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 these 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, 2014 (Act No. 10 of 2014) (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 these financial statements based on my audit. I conducted my audit in accordance with 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 municipality'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 municipality'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 qualified audit opinion.

## **Basis for qualified opinion**

### **Fruitless and wasteful expenditure**

6. The municipality did not investigate the full extent of the fruitless and wasteful expenditure incurred in the 2014 financial year. Consequently, I was unable to determine whether any adjustments to fruitless and wasteful expenditure stated at R24 648 was necessary as it was impractical to do so. My audit opinion on the financial statements for the period ended 30 June 2014 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the current and comparative figures.

### **Prior period adjustment**

7. SA Standards of GRAP 3, *Accounting policies, change in accounting estimates and errors* requires material prior period errors to be corrected retrospectively by restating the comparative amounts for the periods in which the error occurred disclosing the nature of the prior period error, the amount, and financial line item affected. The municipality's disclosure in note 37 does not include all the disclosure requirements as required by the above standard.

## **Opinion**

8. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Fetakgomo Local Municipality as at 30 June 2015 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 matters**

9. 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 31, 34 and 35 to the financial statements, the corresponding figures for the year ended 30 June 2014 have been restated as a result of an error discovered during year under review in the financial statements of the municipality for the year ended 30 June 2015.

## **Significant uncertainties**

11. With reference to note 31 to the financial statements, the municipality is the defendant in several legal claims. The municipality is opposing these claims as it believes the claims to be unfounded. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.



20. I did not identify any material findings on the usefulness and reliability of the reported performance information for the development priorities.

### **Additional matter**

21. I draw attention to the following matter. Our conclusion is not modified in respect of this matter.

#### Achievement of planned targets

22. Refer to the annual performance report on page(s) x to x and x to x for information on the achievement of the planned targets for the year.

### **Compliance with legislation**

23. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

#### Financial statements, performance and annual reports

24. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.
25. Material misstatements of non-current assets and disclosures identified by the auditors in the submitted annual financial statements were subsequently corrected, but the uncorrected material misstatement that could not be corrected, resulted in the financial statements receiving a qualified audit opinion.
26. Financial statements were not submitted for auditing within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.

#### Asset management

27. An effective system of internal control for assets was not in place, as required by section 63(2)(a) of the MFMA

#### Consequence management

28. Irregular, fruitless and wasteful expenditure incurred by municipality was not investigated to determine if any person is liable for the expenditure as required by section 32(2)(a)(ii) of the MFMA.

### **Internal control**

29. I considered internal control relevant to my audit of the financial statements, annual performance report] and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual of performance report and the findings on compliance with legislation included in this report

## Leadership

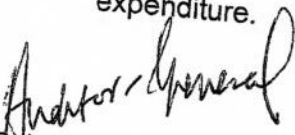
30. The accounting officer did not implement adequate internal controls to ensure the accuracy, completeness and reliability of the reported financial statements
30. The municipality developed a plan to address internal and external audit findings, but the accounting officer did not timeously monitor adherence to the plan

## Financial and performance management

31. The municipality did not properly monitor and review the work done by the consultant appointed to prepare its financial statements
32. The financial statements were not reconciled to the underlying records to ensure the accuracy, completeness and reliability of reported financial results.
33. Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored by management.

## Governance

34. The risk management strategy implemented by the municipality was not effective to prevent a recurring qualification on the municipality's fruitless and wasteful expenditure.

  
Auditor-General  
Polokwane

30 November 2015



AUDITOR-GENERAL  
SOUTH AFRICA

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