

REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE MOGALE CITY LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2008

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Mogale City Local Municipality which comprise the statement of financial position as at 30 June 2008, 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 notes, as set out on pages X to XX.

Responsibility of the accounting officer for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 and in the manner required by the Municipal Finance Management Act, 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
 - making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

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 and *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 on 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.

6. An audit also includes evaluating the:
 - appropriateness of accounting policies used
 - reasonableness of accounting estimates made by management
 - overall presentation of the financial statements.
7. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Mogale City Local Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

9. The municipality's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.

Basis for qualified opinion

Leave pay accrual

10. There was no system of control in place to ensure that all employee leave records were valid, accurate and complete. There were also no satisfactory audit procedures that I could have performed to obtain reasonable assurance that all outstanding employee leave balances were correctly accounted for at the financial year-end. Consequently, I was unable to satisfy myself as to the completeness and accuracy of the accounting records relating to employee leave balances. I was therefore unable to carry out the audit procedures I considered necessary for my audit and could therefore not conclude on the accuracy and completeness of the leave pay accrual amounting to R14 952 131 (note 5) in the financial statements.

Provision for the rehabilitation of landfill sites

11. A provision should have been made for future rehabilitation of landfill sites in accordance with Generally Accepted Municipal Accounting Practice, (GAMAP 19) *Provisions, contingent liabilities and contingent assets*. Management did not determine a reasonable estimate for this liability. I was unable to carry out the audit procedures I considered necessary and I could not determine the effect of such a liability in the financial statements.

Inventory

12. The municipality identified land to be sold as disclosed in note 10 to the financial statements. Included in the list of land to be sold per council resolution were certain properties which were not disclosed in the balance of saleable land. I was therefore unable to satisfy myself as to the completeness of saleable land disclosed in the financial statements.

Qualified opinion

13. In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to satisfy myself as to the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of Mogale City Local Municipality as at 30 June 2008 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury and in the manner required by the MFMA.

Emphasis of matters

I draw attention to the following matters:

Material underspending of conditional grants

14. As indicated in note 6 to the financial statements, the municipality materially underspent on conditional grants to the amount of R36 531 758 of which R11 031 000 was received during June 2008. The material underspending occurred mainly in the MIG grant to erect RDP houses, Department of housing grant to erect houses and Provincial government grants to fund different projects.

Material underspending of the capital budget

15. As indicated in note 27 to the financial statements, the municipality materially underspent on the capital budget to the amount of R25 061 142.

Material water inventory losses

16. As indicated in note 22 to the financial statements, the municipality incurred material water losses amounting to R26 862 985 (35 per cent).

Restatement of corresponding figures

17. As disclosed in note 28 to the financial statements, the corresponding figures for 30 June 2007 were restated as result of an error discovered during 30 June 2008 in the financial statements of Mogale City Local Municipality at, and for the year ended 30 June 2007.

OTHER MATTERS

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Internal controls

18. 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 give rise to the inefficiencies 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.

Reporting item	Control environment	Risk assessment	Control activities	Information and communication	Monitoring
Leave pay accruals			X		X
Provision for the rehabilitation of landfill sites				X	
Inventory				X	

Control environment: establishes the foundation for the internal control system by providing fundamental discipline and structure for financial reporting.

Risk assessment: involves the identification and analysis by management of relevant financial reporting risks to achieve predetermined financial reporting objectives.

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.

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.

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 standard checklists, by employees within a process.

Non-compliance with applicable legislation

Municipal Finance Management Act, 2003 (Act No. 56 of 2003)

19. The declaration of financial interest by the municipal manager was not completed in terms of section 61(2)(b) of the MFMA.
20. The municipality did not have a risk management policy in terms of section 62(1)(c) of the MFMA that provides management with appropriate guidance in the efficient management of risks.

Matters of governance

21. 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 certain key governance responsibilities, which I have assessed as follows:

Matter of governance	Yes	No
Audit committee		
<ul style="list-style-type: none"> • The municipality had an audit committee in operation throughout the financial year. 	X	
<ul style="list-style-type: none"> • The audit committee operates in accordance with approved, written terms of reference. 	X	

Matter of governance	Yes	No
<ul style="list-style-type: none"> The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA. 	X	
Internal audit		
<ul style="list-style-type: none"> The municipality had an internal audit function in operation throughout the financial year. 	X	
<ul style="list-style-type: none"> The internal audit function operates in terms of an approved internal audit plan. 	X	
<ul style="list-style-type: none"> The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA. 	X	
Other matters of governance		
<ul style="list-style-type: none"> The annual financial statements were submitted for audit as per the legislated deadlines in section 126 of the MFMA. 	X	
<ul style="list-style-type: none"> The annual report was submitted to the auditor for consideration prior to the date of the auditor's report. 		X
<ul style="list-style-type: none"> The financial statements submitted for audit were not subject to any material amendments resulting from the audit. 		X
<ul style="list-style-type: none"> No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management. 	X	
<ul style="list-style-type: none"> The prior year's external audit recommendations have been substantially implemented. 	X	
Implementation of Standards of Generally Recognised Accounting Practice (GRAP)		
<ul style="list-style-type: none"> The municipality submitted an implementation plan, detailing progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 30 October 2007. 		X
<ul style="list-style-type: none"> The municipality substantially complied with the implementation plan it submitted to the National Treasury and the relevant provincial treasury before 30 October 2007, detailing its progress towards full compliance with GRAP. 		X
<ul style="list-style-type: none"> The municipality submitted an implementation plan, detailing further progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 31 March 2008. 		X

Unaudited supplementary schedules

22. The supplementary information set out on pages X to XX 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 on it.

OTHER REPORTING RESPONSIBILITIES

REPORT ON PERFORMANCE INFORMATION

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

Responsibility of the accounting officer for the performance information

24. 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).

Responsibility of the Auditor-General

25. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.
26. 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.
27. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings (performance information)

Non-compliance with regulatory requirements

Existence and functioning of a performance audit committee

28. The Mogale City Local Municipality did not appoint and budget for a performance audit committee, neither was the existing audit committee utilised to address performance management and monitoring matters.

Measurable objectives not consistent

Measurable objectives are materially inconsistent between annual report and integrated development plan (IDP)

29. I draw attention to the fact that the measurable objectives reported in the IDP are materially inconsistent when compared with the objectives as per the annual report.

Objectives per integrated development plan	Objective per annual report
(a) To provide sustainable services to the community: - Physical infrastructure services - Social services - Economic services	None
(b) To promote a sound environmental management system: - Environmental risk management (Health and Safety) - Conservation management	None
(c) To provide sound governance for local communities: - Broaden local democracy - Ensure local government accountability	None
(d) To ensure sound governance practices within the municipality - Corporate governance practice - Business leadership/management	None

Objectives per development plan	integrated	Objective per annual report
- Resource management		

APPRECIATION

30. The assistance rendered by the staff of the Mogale City Local Municipality during the audit is sincerely appreciated.

Johannesburg

28 November 2008



A U D I T O R - G E N E R A L