



**AUDIT REPORT  
2011-12**

# REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE KOPANONG LOCAL MUNICIPALITY

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I was engaged to audit the financial statements of the Kopanong Local Municipality set out on pages 78 to 125, which comprise the statement of financial position as at 30 June 2012, the statements of financial performance, changes in net assets and cash flows for the year then ended, and 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 the 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 Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (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 the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### Basis for disclaimer of opinion

#### Property, plant and equipment

4. I was unable to obtain sufficient appropriate audit evidence for property plant and equipment stated at R700 197 919 (2011: R692 121 829) in note 8 to the financial statements. This is due to fact that the values recorded in the asset register could not be confirmed. It could not be established whether all municipal assets are included in the asset register and items included in the asset register could not always be physically verified. Additionally, it could not be confirmed that the intangible assets disclosed in note 8 met the recognition criteria as defined in the SA Standards of GRAP, GRAP 102, *Intangible assets*. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amounts disclosed for property, plant and equipment

#### Trade and other payables

5. The municipality did not accrue for invoices in respect of goods and services received amounting to R1 788 794 in the previous financial year. Consequently, trade and other payables, property, plant and equipment, bulk purchases and revenue from government grants and subsidies are understated by R1 788 974, R194 039, R1 476 593 and R221 202 respectively. Value added tax (VAT) payable, general expenditure, finance costs, the accumulated surplus and unspent conditional grants are overstated by R38 521, R157 511, R1 276, R238 608 and R221 202 respectively. The electricity service provider inaccurately

recorded a transaction, which does not pertain to the municipality against trade and other payables, resulting in service charges and trade and other payables being overstated by R3 843 955 respectively. In addition, I was unable to obtain sufficient appropriate audit evidence for trade and other payables stated at R87 576 106 (2011:R58 940 831) in note 11 to the financial statements due to a lack of internal controls and systems surrounding payables. I was unable to confirm the balance by alternative means. Consequently I was unable to determine whether any further adjustments were necessary to the amount disclosed for trade and other payables.

#### **Accounts receivable**

6. I was unable to obtain sufficient appropriate audit evidence to confirm the existence and valuation of accounts receivable stated at R28 540 607 (2011: R31 508 855) in notes 3 to 5 to the financial statements due to service agreements, a reliable age analysis to be used for the provision of doubtful debt and detailed breakdown of the suspense accounts (only in the prior year) not provided. I was unable to confirm the existence and valuation by alternative means. Consequently I was unable to determine whether any adjustment relating to accounts receivable was necessary.
7. The municipality did not make all the disclosures in terms of the International Financial Reporting Standard, IFRS 7, *Financial instruments: Disclosures*, which states that an entity shall disclose by class of financial instrument information about the credit quality of financial assets that are neither past due nor impaired. I have not determined the correct disclosures of these receivables as it was impracticable to do.

#### **Provisions**

8. The municipality did not include a long-service award provision in the current and in the previous financial year stated at R23 820 426 (2011:R0) in note 10 to the financial statements. The provision should be valued by making use of an actuarial technique and the projected unit credit method in accordance with the International Accounting Standard, *IAS 19, Employee benefits*. I have not determined the correct amount of the provision as it was impracticable to do so. In addition, I was unable to obtain sufficient appropriate audit evidence for the valuation of the rehabilitation provision in the current and previous financial year. I was unable to confirm the valuation by alternative means. Consequently I was unable to determine whether any adjustment to provisions were necessary.

#### **Retirement benefit obligation**

9. The municipality did not value post-retirement medical aid benefits stated at R18 124 543 (2011:R14 858 115) in note 46 to the financial statements in accordance with the International Accounting Standard, *IAS 19 Employee benefits*. I have not determined the correct amount of the retirement benefit obligation as it was impracticable to do so.

#### **Investment property**

10. The municipality did not value investment property stated at R9 491 880 (2011:R9 491 880) in note 45 to the financial statements at the fair value that reflects market conditions at the reporting date in accordance with SA Standards of GRAP, GRAP 16, *Investment property*. I have not determined the correct fair value of investment property as it was impracticable to do so. In addition, I was not able to obtain sufficient appropriate audit evidence about investment property disclosed in note 45 due to reconciliations not performed in the current and prior financial year between the municipal properties per the valuation roll and properties per the municipality's fixed asset registers. I was unable to confirm the existence and completeness and the municipality's rights to investment property by alternative means.

Consequently I was unable to determine whether any further adjustments were necessary to the amount disclosed for investment property.

#### **Unspent conditional grants and receipts**

11. The municipality recorded a payment twice in the accounting records which resulted in an understatement of unspent conditional grants and receipts amounting to R528 026 as disclosed in note 14 to the financial statements, an overstatement of trade and other payables (note 11) amounting to R528 026, revenue from government grants and subsidies (note 21) amounting to R528 026, VAT payable (note 15) amounting to R64 835 and property, plant and equipment amounting to R463 181 (note 8). In addition, I was unable to obtain sufficient and appropriate audit evidence about unspent conditional grants and receipts stated at R1 937 542 (2011:R2 196 246) in note 14 to the financial statements, as well as revenue from grants and subsidies stated at R111 411 693 (2011:R117 507 526) in note 21 to the financial statements. This is due to a lack of accurate reconciliations between the balance of unspent grants at the beginning of the year and the balance unspent at the end of the financial year. I was unable to confirm the valuation, completeness and existence of the unspent grants and the occurrence, accuracy and completeness of revenue from government grants and subsidies by alternative means. Consequently I was unable to determine whether any adjustments relating to unspent conditional grants and receipts and revenue from government grants and subsidies in the financial statements were necessary.

#### **Accumulated surplus**

12. The municipality did not accurately account for prior period errors pertaining to property rates which resulted in an understatement of the accumulated surplus and receivables from non-exchange transactions amounting to R1 850 200 as per note 5 to the financial statements. The municipality also understated the accumulated surplus by R959 131 in respect of the prior period error adjustment relating to property, plant and equipment. Due to the reconciliation methods applied by the municipality, the other account affected could not be determined. Prior period error corrections were also not correctly disclosed in the statement of changes in net assets. In addition, I was unable to obtain sufficient appropriate audit evidence to determine whether the accumulated surplus, as included in the statement of changes in net assets, was fairly stated. Taking into account the misstatements and scope limitations identified in the financial statements, as set out in the report, and the lack of sufficient appropriate audit evidence for journals processed against the accumulated surplus, I was unable to practically quantify the misstatements in the accumulated surplus. Consequently I was unable to determine whether any adjustments to the financial statements were necessary.

#### **Property rates**

13. The municipality did not account for property rates in terms of the municipality's valuation roll in the current and previous financial year. Consequently property rates as per note 22 is overstated by R3 290 881 in 2012 and understated by R2 492 929 in 2011 while the gross balance of other receivables from non-exchange transactions in 2012 as per note 5 is overstated by R797 952.

#### **Rental of facilities and equipment**

14. The municipality did not establish internal controls in the current and previous financial year to ensure that a complete and accurate property rental register is maintained and reconciled to the general ledger. I am therefore unable to confirm the completeness and accuracy of revenue from the rental of facilities and equipment stated at R1 067 282 (2011:R998 130) in the financial statements.

### **Service charges**

15. The municipality did not have sufficient controls in place in the current and previous financial year to ensure that service charges are accurately accounted for. This resulted in an understatement of service charges (note 23) by R2 739 634 (2011:R1 024 347), the gross balance of trade receivables from exchange transactions (note 3) by R3 123 182 (2011:R1 167 755) and the VAT payable (note 15) by R383 548 (2011:R143 408). In addition, sufficient appropriate audit evidence was not available to confirm the accuracy, completeness and occurrence of service charges stated at R63 068 661 (2011:R52 908 021) as disclosed in note 23 to the financial statements. I was unable to confirm service charges by alternative means. Consequently I was unable to determine whether any further adjustments were necessary to the amount disclosed service charges.

### **General expenses**

16. I was unable to obtain sufficient appropriate audit evidence to confirm the occurrence, accuracy and cut-off of general expenses stated at R34 352 516 (2011:R31 497 008) in note 27 to the financial statements. I was unable to confirm general expenses by alternative means. Consequently I was unable to determine whether any adjustment relating to general expenses in the financial statements was necessary.

### **Prior period errors**

17. The municipality did not retrospectively adjust prior period errors or disclose prior period errors corrected in accordance with SA Standards of GRAP, GRAP 3, *Accounting policies, changes in accounting estimates and errors*. Consequently I have not been able to determine the affected account balances, nor the effect of the disclosures as it was impracticable to do so based on the extensive number of journals not correctly accounted for in the corresponding figures in the financial statements.

### **Commitments**

18. I unable to obtain sufficient appropriate audit evidence to confirm the completeness and valuation of capital commitments stated at R11 748 380 (2011:R26 969 316) in note 32 to the financial statements and the completeness and valuation of retention payables for which no value has been included in the financial statements. I was unable to confirm the completeness and valuation of these items by alternative means. Consequently I was unable to determine whether any adjustments to the capital commitment and retention payables were necessary.

### **Distribution losses**

19. I unable to obtain sufficient appropriate audit evidence for the units sold and the units purchased in respect of the electricity service provider and as a result the accuracy of the electricity distribution loss disclosed as R1 743 474 (2011:R2 397 712) in note 42 to the financial statements could not be confirmed. I was unable to confirm the distribution loss disclosure by alternative means. Consequently I was unable to determine whether any adjustments to the distribution loss disclosure were necessary.

### **Cash flow statement**

20. I was unable to obtain sufficient appropriate audit evidence to determine whether the cash flow statement and the related notes were fairly stated. Taking into account the misstatements and scope limitations identified in the financial statements, as set out in this report, I was unable to practically quantify the misstatements in the cash flow statement and

notes thereto. Consequently, I was unable to determine the accuracy, completeness and disclosure of the cash flow statement and related notes.

#### **Aggregation of immaterial uncorrected misstatements**

21. The financial statements as a whole are materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following elements making up the statement of financial position and the statement of financial performance:

- VAT payable as per note 15 to the financial statements of the prior year is overstated by R1 266 341 and trade and other payables as per note 11 are understated by R1 266 341.

In addition, I was unable to obtain sufficient appropriate audit evidence to confirm or verify the following elements by alternative means.

- The completeness and accuracy of finance lease obligation reflected as R397 470 (2011: R635 137) in note 13 to the financial statements.
- The valuation of consumer deposits stated at R1 359 627 (2011: R1 155 390) in note 9 to the financial statements.
- The valuation of VAT payable stated at R3 218 359 in note 15 to the financial statements.

As a result, we were unable to determine whether any further adjustments to these elements were necessary.

#### **Disclaimer of opinion**

22. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

#### **Emphasis of matters**

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

#### **Restatement of corresponding figures**

23. As disclosed in note 19 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of an error discovered during 30 June 2012 in the financial statements of the Kopanong Local Municipality at, and for the year ended, 30 June 2011.

#### **Material losses and impairments**

24. As disclosed in note 42 to the financial statements, material distribution losses to the amount of R10 850 792 for the sale of water and R1 743 474 for the sale of electricity were incurred.

25. As disclosed in notes 3 to 5 of the financial statements the provision for the impairment of receivables amounted to R78 700 433.

### **Financial sustainability**

26. As disclosed in note 36 to the financial statements, the municipality is experiencing serious difficulties with regard to debt collection. 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 government for its continued sustainability. These conditions, along with other matters, indicate 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.

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

27. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

#### **Predetermined objectives**

28. I am unable to report findings on the usefulness and reliability of the annual performance report of Kopanong Local Municipality as it was not prepared as required by section 46 of the Municipal Systems Act (MSA) and section 121(3)(c) of the MFMA.

#### **Compliance with laws and regulations**

29. I performed procedures to obtain evidence that the entity had complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

#### **Strategic planning and performance management**

30. The municipality did not set appropriate key performance indicators as a yardstick for measuring performance, including outcomes and impact, with regard to the municipality's development priorities and objectives set out in its integrated development plan (IDP) as required by section 41(a) of the MSA.
31. The municipality did not set measurable performance targets with regard to each development priority and objective as required by section 41(b) of the MSA.

#### **Budgets**

32. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

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

33. The annual performance report for the year under review does not include the performance of the municipality and its service provider for electricity a comparison of the performance with set targets, a comparison with the previous financial year and measures taken to improve performance, as required by section 46(1)(a),(b) and (c) of the MSA.
34. 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 non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected,

but the uncorrected material misstatements resulted in the financial statements receiving a disclaimer audit opinion.

35. The municipal council did not adopt an oversight report containing comments on the annual report, within two months from the date on which the 2010-11 annual report was tabled, as required by section 129(1) of the MFMA.

#### **Internal audit**

36. The internal audit unit did not audit the performance measurements on a continuous basis as required by municipal planning and performance management regulation 14(1)(c), as information pertaining to the third and fourth quarter's performance was not submitted.

#### **Procurement and contract management**

37. Goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations as required by municipal supply chain management regulations (SCM) regulations 17(a) and (c).
38. Bids were not always evaluated by a bid evaluation committee which composed of at least one SCM practitioner of the municipality as required by SCM regulation 28(2).
39. Bid adjudication was not always done by committees which were composed in accordance with SCM regulation 29(2).
40. Bid specifications were not always drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).
41. Invitations for competitive bidding were not always advertised for a required minimum period of days, as required by SCM regulation 22(1) and 22(2).
42. Sufficient appropriate audit evidence could not be obtained that awards were not made to bidders other than those recommended by the bid evaluation committee unless it was ratified by the accounting officer, as required by SCM regulation 29(5)(b).
43. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
44. Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act, 2000 (Act No. 38 of 2000) and CIDB regulation 18.

#### **Human resource management and compensation**

45. The competencies of the municipal manager, financial and SCM officials were not assessed promptly in order to identify and address gaps in competency levels as required by the municipal regulations on minimum competency levels (GNR.493 of 2007) regulation 13.

#### **Expenditure management**

46. 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.
47. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred and accounted for creditors, as required by section 65(2)(b) of the MFMA.
48. The accounting officer did not take reasonable steps to prevent irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
49. Irregular, fruitless and wasteful expenditure was not adequately investigated and therefore could not be recovered from the liable person, as required by section 32(2) of the MFMA.



### **Transfer of funds and/or conditional grants**

50. The municipality did not timeously submit project registration forms, for projects it intended implementing in the financial year under review, to the Department of Local Government, as required by the *Division of revenue grant framework, Government Gazette No.34280*.
51. Sufficient appropriate audit evidence could not be obtained that unspent conditional grant funds not committed to identifiable projects and not approved by National Treasury for retention were surrendered to the National Revenue Fund, as required by section 20(1) of the DoRA.
52. The municipality did not submit MFMA implementation plans to National Treasury to address weaknesses in financial management, as required by the *Division of revenue grant framework, Government Gazette No.34280*.

### **Revenue management**

53. An adequate management, accounting and information system was not in place which recognised revenue when it was earned and accounted for debtors, as required by section 64(2)(e) of the MFMA.

### **Asset management**

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

### **Financial misconduct**

55. Investigations were not instituted into all allegations of financial misconduct against officials of the municipality, as required by section 171(4)(a) of the MFMA due to the fact that irregular and fruitless and wasteful expenditure was incurred but not investigated.

### **Liability management**

56. Short-term debt (bank overdraft) was not repaid within the financial year, as required by section 45(4)(a) of the MFMA.

### **Internal control**

57. I considered internal control relevant to my audit of the financial statements, the annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

### **Leadership**

58. The leadership did not effectively determine whether management had implemented effective internal controls. They also did not gain a comprehensive understanding of how senior management members had met their responsibilities in terms of ensuring proper record management in respect of preparing the annual financial statements.
59. The leadership did implement the necessary controls to prevent non-compliance with the SCM regulations and took the necessary action to address the lack of discipline in the finance and SCM directorates; however, this did not prevent non-compliance with the procurement legislation which, in turn, gave rise to the high levels of unauthorised, fruitless and wasteful and irregular expenditure incurred in the financial statements.

60. The leadership of the municipality did not effectively develop, implement and monitor internal control procedures to ensure that quarterly financial statements are prepared and subjected to review. This oversight resulted in the challenges being faced to submit financial statements that are fully compliant with the SA Standards of GRAP and necessitated the amendment of financial statements provided for audit purposes.
61. The leadership only partly implemented adequate controls to ensure compliance with laws, regulations and internally designed policies and procedures. As a result, significant non-compliance issues were noted.

### **Financial and performance management**

62. Effective performance systems, processes and procedures, as well as the management thereof, had not been adequately developed and implemented.
63. Due to oversight on the part of the accounting officer, the regular review and monitoring of compliance with laws and regulations were not sufficiently prioritised in the municipality. As a result, significant non-compliance issues were noted that could have been prevented.
64. The staff within the finance directorate of the municipality lacked the appropriate skill and competence, which compelled the municipality to make use of consultants to supplement such constraints. Consultants assisted with the preparation of an asset register and the preparation of the financial statements.
65. Due to time pressure brought about by the fact that the process of preparing the financial statements was only started late in the financial year, the chief financial officer did not have sufficient time after the appointment of the consultants was finalised to properly review such statements for completeness and accuracy prior to submission thereof for auditing. This resulted in many findings relating to incorrect disclosure which were subsequently corrected.
66. Staff within the finance directorate of the municipality had an insufficient understanding of the accounting framework. This contributed towards the numerous errors that were subsequently corrected in the financial statements of the municipality.

### **Governance**

67. The internal audit unit and the audit committee functioned effectively; however, not all recommendations could be implemented within the financial year.

## OTHER REPORTS

### Investigations

68. An investigation relating to the appointment of consultants, the unlawful appointment and dismissal of officials and the awarding of contracts is being conducted by the Special Investigation Unit (SIU). The investigation had commenced in the 2008-09 financial year and is still ongoing.

*Auditor-General*

Bloemfontein

30 November 2012



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*





RESPONSES  
AUDIT REPORT  
2011 - 12

## KOPANONG LOCAL MUNICIPALITY

### ACTION PLAN IN RESPECT OF AUDITOR GENERAL REPORT TO THE FREE STATE PROVINCIAL LEGISLATURE ON THE FINANCIAL STATEMENTS OF KOPANONG LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2012

No	AUDIT COMMENT / FINDING	MANAGEMENT RESPONSE	PERSON	START DATE	END DATE
			RESPONSIBLE		
4.	<p><b>Property, plant and equipment</b></p> <p>I was unable to obtain sufficient appropriate audit evidence for property plant and equipment stated at R700 197 919 (2011: R692 121 829) in note 8 to the financial statements. This is due to fact that the values recorded in the asset register could not be confirmed. It could not be established whether all municipal assets are included in the asset register and items included in the asset register could not always be physically verified. Additionally, it could not be confirmed that the intangible assets disclosed in note 8 met the recognition criteria as defined in the SA Standards of GRAP, GRAP 102, <i>Intangible assets</i>. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amounts disclosed for property, plant and equipment</p>	<p>The municipality compiled a new asset register which includes the unbundling of the infrastructural assets. All the shortcomings in the movable and immovable asset registers will be followed up and the needed corrections and information will be supplied.</p>	CFO / Asset Accountant / Consultants	10/12/2012	30/04/2013
5	<p><b>Trade and other payables</b></p> <p>The municipality did not accrue for invoices in respect of goods and services received amounting to R1 788 794 in the previous financial year. Consequently, trade and other payables, property, plant and equipment, bulk purchases and revenue from government grants and subsidies are understated by R1 788 974, R194 039, R1 476 593 and R221 202 respectively. Value added tax (VAT) payable, general expenditure, finance costs, the accumulated surplus and unspent conditional grants</p>	<p>The municipality has already started to implement a creditor system to ensure that all invoices are captured on the system to prevent the problem of non-accrual of invoice can occur. All invoices will be captured when received and not on payment as in the past.</p> <p>Creditors will also be reconciled on a monthly basis.</p>	<p>Financial Manager / Expenditure Accountant / Expenditure Officer</p> <p>Expenditure Accountant / Expenditure Officer / Expenditure Clerk</p>	01/11/2012	Daily
				31/01/2013	Monthly

No	AUDIT COMMENT / FINDING	MANAGEMENT RESPONSE	PERSON	START DATE	END DATE
			RESPONSIBLE		
	are overstated by R38 521, R157 511, R1 276, R238 608 and R221 202 respectively. The electricity service provider inaccurately recorded a transaction, which does not pertain to the municipality against trade and other payables, resulting in service charges and trade and other payables being overstated by R3 843 955 respectively. In addition, I was unable to obtain sufficient appropriate audit evidence for trade and other payables stated at R87 576 106 (2011:R58 940 831) in note 11 to the financial statements due to a lack of internal controls and systems surrounding payables. I was unable to confirm the balance by alternative means. Consequently I was unable to determine whether any further adjustments were necessary to the amount disclosed for trade and other payables.	Centlec will correct the transaction that was incorrectly captured.	CFO / Centlec	02/01/2013	31/03/2013
6	<b>Accounts receivable</b> I was unable to obtain sufficient appropriate audit evidence to confirm the existence and valuation of accounts receivable stated at R28 540 607 (2011: R31 508 855) in notes 3 to 5 to the financial statements due to service agreements, a reliable age analysis to be used for the provision of doubtful debt and detailed breakdown of the suspense accounts (only in the prior year) not provided. I was unable to confirm the existence and valuation by alternative means. Consequently I was unable to determine whether any adjustment relating to accounts receivable was necessary.	Service Agreements will be obtained from all consumers and filed for audit purposes.  An age analysis is available from the system and they are reliable.	Chief Accountant / Income Accountant  Chief Accountant	02/01/2013  30/06/2013	30/04/2013  30/06/2013
7	The municipality did not make all the disclosures in terms of the International Financial Reporting Standard, IFRS 7, <i>Financial instruments: Disclosures</i> , which states that an entity shall disclose by class of financial instrument information about the credit quality of financial assets that are neither past due nor impaired. I have not determined the correct disclosures of these receivables as it was impracticable to do.	The suspense accounts are now been monitored on a monthly basis.  Although disclosures were made by the consultants it was not sufficient according to the accounting standard. This will be corrected in the 2012/13 AFS.	Financial Manager  CFO	02/01/2013  01/07/2013	Monthly  31/07/2013
	<b>Provisions</b> The municipality did not include a long-service award	A long service award provision had been			

No	AUDIT COMMENT / FINDING	MANAGEMENT RESPONSE	PERSON	START DATE	END DATE
			RESPONSIBLE		
8	provision in the current and in the previous financial year stated at R23 820 426 (2011:R0) in note 10 to the financial statements. The provision should be valued by making use of an actuarial technique and the projected unit credit method in accordance with the International Accounting Standard, <i>IAS 19, Employee benefits</i> . I have not determined the correct amount of the provision as it was impracticable to do so. In addition, I was unable to obtain sufficient appropriate audit evidence for the valuation of the rehabilitation provision in the current and previous financial year. I was unable to confirm the valuation by alternative means. Consequently I was unable to determine whether any adjustment to provisions were necessary.	obtained from an actuary and the AFS for 2012/13 will be corrected retrospectively.  The valuation had been done by the consultants that done the unbundling of assets and the information will be obtained from them.	CFO / Financial Manager  CFO	01/07/2013  02/01/2013	31/07/2013  31/01/2013
9	<b>Retirement benefit obligation</b>  The municipality did not value post-retirement medical aid benefits stated at R18 124 543 (2011:R14 858 115) in note 46 to the financial statements in accordance with the International Accounting Standard, <i>IAS 19 Employee benefits</i> . I have not determined the correct amount of the retirement benefit obligation as it was impracticable to do so.	Actuaries will be appointed to ensure that the calculations are done correctly and according to the IAS 19 standard.	CFO	01/02/2013	30/06/2013
10	<b>Investment property</b>  The municipality did not value investment property stated at R9 491 880 (2011:R9 491 880) in note 45 to the financial statements at the fair value that reflects market conditions at the reporting date in accordance with SA Standards of GRAP, GRAP 16, <i>Investment property</i> . I have not determined the correct fair value of investment property as it was impracticable to do so. In addition, I was not able to obtain sufficient appropriate audit evidence about	All investment properties will be valued at year-end in future as indicated in GRAP 16.  A reconciliation between the valuation roll and	CFO / Assets Accountant  Asset Accountant	01/04/2013  02/01/2013	30/06/2013  30/04/2013

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			RESPONSIBLE		
	investment property disclosed in note 45 due to reconciliations not performed in the current and prior financial year between the municipal properties per the valuation roll and properties per the municipality's fixed asset registers. I was unable to confirm the existence and completeness and the municipality's rights to investment property by alternative means. Consequently I was unable to determine whether any further adjustments were necessary to the amount disclosed for investment property.	fixed assets register will be done on an annual basis and will be submitted to the Auditor-General at each year-end.			
11	<p><b>Unspent conditional grants and receipts</b></p> <p>The municipality recorded a payment twice in the accounting records which resulted in an understatement of unspent conditional grants and receipts amounting to R528 026 as disclosed in note 14 to the financial statements, an overstatement of trade and other payables (note 11) amounting to R528 026, revenue from government grants and subsidies (note 21) amounting to R528 026, VAT payable (note 15) amounting to R64 835 and property, plant and equipment amounting to R463 181 (note 8). In addition, I was unable to obtain sufficient and appropriate audit evidence about unspent conditional grants and receipts stated at R1 937 542 (2011:R2 196 246) in note 14 to the financial statements, as well as revenue from grants and subsidies stated at R111 411 693 (2011:R117 507 526) in note 21 to the financial statements. This is due to a lack of accurate reconciliations between the balance of unspent grants at the beginning of the year and the balance unspent at the end of the financial year. I was unable to confirm the valuation, completeness and existence of the unspent grants and the occurrence, accuracy and completeness of revenue from government grants and subsidies by alternative means. Consequently I was unable to determine whether any adjustments relating to unspent conditional grants and receipts and revenue from government grants and subsidies in the financial statements were necessary.</p>	<p>The mistake had already been corrected and the financial statement will be adjusted.</p> <p>A new commitment register will be compiled and kept up to date to ensure that proper reconciliations are kept of all grant funding.</p>	<p>Finance Manager</p> <p>Finance Manager</p>	<p>01/12/2012</p> <p>02/01/2013</p>	<p>01/12/2012</p> <p>31/01/2013 thereafter every month.</p>



No	AUDIT COMMENT / FINDING	MANAGEMENT RESPONSE	PERSON	START DATE	END DATE
			RESPONSIBLE		
12	<p><b>Accumulated surplus</b></p> <p>The municipality did not accurately account for prior period errors pertaining to property rates which resulted in an understatement of the accumulated surplus and receivables from non-exchange transactions amounting to R1 850 200 as per note 5 to the financial statements. The municipality also understated the accumulated surplus by R959 131 in respect of the prior period error adjustment relating to property, plant and equipment. Due to the reconciliation methods applied by the municipality, the other account affected could not be determined. Prior period error corrections were also not correctly disclosed in the statement of changes in net assets. In addition, I was unable to obtain sufficient appropriate audit evidence to determine whether the accumulated surplus, as included in the statement of changes in net assets, was fairly stated. Taking into account the misstatements and scope limitations identified in the financial statements, as set out in the report, and the lack of sufficient appropriate audit evidence for journals processed against the accumulated surplus, I was unable to practically quantify the misstatements in the accumulated surplus. Consequently I was unable to determine whether any adjustments to the financial statements were necessary.</p>	<p>Corrections to the rates had been made with the help of Sebata but it was wrongly allocated to the 2011/12 financial year's income. The financial statements of 2012/13 will reflect the correct amounts.</p> <p>Corrections of prior year arrears on the audit report had been made but the consultants use the incorrect trail balance for the 2010/11. The 2012/13 financial statements will reflect the correct amounts.</p>	CFO / Financial Manager	01/07/2013	31/07/2013
			CFO / Financial Manager	01/07/2013	31/07/2013
13	<p><b>Property rates</b></p> <p>The municipality did not account for property rates in terms of the municipality's valuation roll in the current and previous financial year. Consequently property rates as per note 22 is overstated by R3 290 881 in 2012 and understated by R2 492 929 in 2011 while the gross balance of other receivables from non-exchange transactions in 2012 as per note 5 is overstated by R797 952</p>	<p>A reconciliation between all rates levies on the system and the actual valuation roll will be done to ensure that the rates income is correct.</p>	Chief Accountant / Rates Accountant	02/01/2013	30/04/2013
	<p><b>Rental of facilities and equipment</b></p>				

No	AUDIT COMMENT / FINDING	MANAGEMENT RESPONSE	PERSON	START DATE	END DATE
			RESPONSIBLE		
14	The municipality did not establish internal controls in the current and previous financial year to ensure that a complete and accurate property rental register is maintained and reconciled to the general ledger. I am therefore unable to confirm the completeness and accuracy of revenue from the rental of facilities and equipment stated at R1 067 282 (2011:R998 130) in the financial statements.	The property rental register will be reconciled with the ledger and the investment assets register to ensure that all properties that are rented out are levied on the system.	Chief Accountant / Income Accountant / Asset Accountant / Housing Officer	02/01/2013	31/01/2013 and monthly thereafter.
15	<b>Service charges</b> The municipality did not have sufficient controls in place in the current and previous financial year to ensure that service charges are accurately accounted for. This resulted in an understatement of service charges (note 23) by R2 739 634 (2011:R1 024 347), the gross balance of trade receivables from exchange transactions (note 3) by R3 123 182 (2011:R1 167 755) and the VAT payable (note 15) by R383 548 (2011:R143 408). In addition, sufficient appropriate audit evidence was not available to confirm the accuracy, completeness and occurrence of service charges stated at R63 068 661 (2011:R52 908 021) as disclosed in note 23 to the financial statements. I was unable to confirm service charges by alternative means. Consequently I was unable to determine whether any further adjustments were necessary to the amount disclosed service charges.	All accounts will be verified to ensure that the correct tariff is been levied and also that all relevant services are levied on each account.  All accounts will be verified whether a valid contract is in place and where no contract exists it will be obtained and filed for audit purposes.	Chief Accountant / Income Accountant  Chief Accountant / Income Accountant	08/01/2013  08/01/2013	31/05/2013  31/05/2013
16	<b>General expenses</b> I was unable to obtain sufficient appropriate audit evidence to confirm the occurrence, accuracy and cut-off of general expenses stated at R34 352 516 (2011:R31 497 008) in note 27 to the financial statements. I was unable to confirm general expenses by alternative means. Consequently I was unable to determine whether any adjustment relating to general expenses in the financial statements was necessary.	Centlec will supply sufficient evidence to confirm the general expenses occurred by them.	CFO / Centlec	01/02/2013	31/05/2013
	<b>Prior period errors</b> The municipality did not retrospectively adjust prior				

No	AUDIT COMMENT / FINDING	MANAGEMENT RESPONSE	PERSON	START DATE	END DATE
			RESPONSIBLE		
17	period errors or disclose prior period errors corrected in accordance with SA Standards of GRAP, GRAP 3, <i>Accounting policies, changes in accounting estimates and errors</i> . Consequently I have not been able to determine the affected account balances, nor the effect of the disclosures as it was impracticable to do so based on the extensive number of journals not correctly accounted for in the corresponding figures in the financial statements.	The consultants did not use the correct balances when compiling the financial statements. This will however correct itself during the new financial statements as the corrections had been shown in the movement.	CFO / Financial Manager	Completed	Completed
18	<b>Commitments</b> I unable to obtain sufficient appropriate audit evidence to confirm the completeness and valuation of capital commitments stated at R11 748 380 (2011:R26 969 316) in note 32 to the financial statements and the completeness and valuation of retention payables for which no value has been included in the financial statements. I was unable to confirm the completeness and valuation of these items by alternative means. Consequently I was unable to determine whether any adjustments to the capital commitment and retention payables were necessary.	A new commitment register will be compiled and kept up to date to ensure that proper reconciliations are kept of all outstanding commitments.	CFO / Financial Manager	14/01/2013	On-Going
19	<b>Distribution losses</b> I unable to obtain sufficient appropriate audit evidence for the units sold and the units purchased in respect of the electricity service provider and as a result the accuracy of the electricity distribution loss disclosed as R1 743 474 (2011:R2 397 712) in note 42 to the financial statements could not be confirmed. I was unable to confirm the distribution loss disclosure by alternative means. Consequently I was unable to determine whether any adjustments to the distribution loss disclosure were necessary.	Centlec will supply the appropriate audit evidence.	CFO / Centlec	01/02/2013	28/02/2013
20	<b>Cash flow statement</b> I was unable to obtain sufficient appropriate audit evidence to determine whether the cash flow statement and the related notes were fairly stated.	The cash flow statement will be corrected with the compilation of the 2012/13 AFS.	CFO	01/07/2013	15/08/2013

No	AUDIT COMMENT / FINDING	MANAGEMENT RESPONSE	PERSON	START DATE	END DATE
			RESPONSIBLE		
	Taking into account the misstatements and scope limitations identified in the financial statements, as set out in this report, I was unable to practically quantify the misstatements in the cash flow statement and notes thereto. Consequently, I was unable to determine the accuracy, completeness and disclosure of the cash flow statement and related notes.				
21	<p><b>Aggregation of immaterial uncorrected misstatements</b></p> <p>The financial statements as a whole are materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following elements making up the statement of financial position and the statement of financial performance:</p> <ul style="list-style-type: none"> <li>VAT payable as per note 15 to the financial statements of the prior year is overstated by R1 266 341 and trade and other payables as per note 11 are understated by R1 266 341.</li> </ul> <p>In addition, I was unable to obtain sufficient appropriate audit evidence to confirm or verify the following elements by alternative means.</p> <ul style="list-style-type: none"> <li>The completeness and accuracy of finance lease obligation reflected as R397 470 (2011: R635 137) in note 13 to the financial statements.</li> <li>The valuation of consumer deposits stated at R1 359 627 (2011: R1 155 390) in note 9 to the financial statements.</li> <li>The valuation of VAT payable stated at R3 218 359 in note 15 to the financial statements.</li> </ul> <p>As a result, we were unable to determine whether any further adjustments to these elements were necessary.</p>	<p>Centlec will do VAT reconciliations on a monthly basis</p> <p>All possible leases will be investigated and where needed will be added to the AFS.</p> <p>Centlec will obtain and supply the Auditor-General with consumer deposit listings for each individual municipality.</p> <p>See above</p>	<p>CFO/Centlec</p> <p>CFO/Finance Manager</p> <p>Chief Accountant</p>	<p>01/02/2013</p> <p>01/03/2013</p> <p>On-going</p>	<p>31/03/2013</p> <p>31/05/2013</p> <p>On-going</p>

No	AUDIT COMMENT / FINDING	MANAGEMENT RESPONSE	PERSON	START DATE	END DATE
			RESPONSIBLE		
	<b>Emphasis of Matters</b>				
	<b>Material losses and Impairments</b>				
24	As disclosed in note 42 to the financial statements, material distribution losses to the amount of R10 850 792 for the sale of water and R1 743 474 for the sale of electricity were incurred.	The Municipality must install new meters and is in the process of purchasing of new meters.  Centlec will address the electricity losses	CFO/Technical Director  Centlec/CFO	On-Going  On-Going	On-Going  On-Going
25	As disclosed in notes 3 to 5 of the financial statements the provision for the impairment of receivables amounted to R78 700 433.	Credit Control and external debt collection will be stepped up to ensure that outstanding debt is collected.	CFO/Credit Control Accountant	On-Going	On-Going
	<b>Financial Sustainability</b>				
26	As disclosed in note 36 to the financial statements, the municipality is experiencing serious difficulties with regard to debt collection. 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 government for its continued sustainability. These conditions, along with other matters, indicate 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	The municipality has developed a Recovery Plan to help to improve the financial situation of the municipality.  The municipality is also doing credit control on a daily basis but it is limited due to restraints in resources.  Collections through legal processes had also been implemented.	CFO	On-Going	On-Going
	<b>Report on other legal and regulatory requirements</b>				
	<b>Predetermined objectives</b>				
28	I am unable to report findings on the usefulness and reliability of the annual performance report of Kopanong Local Municipality as it was not prepared as required by section 46 of the Municipal Systems Act (MSA) and section 121(3)(c) of the MFMA.	The annual performance report for 2012/13 will be prepared according to section 46 of the MSA.	PMS Manager	01/01/2013	15/08/2013

No	AUDIT COMMENT / FINDING	MANAGEMENT RESPONSE	PERSON	START DATE	END DATE
			RESPONSIBLE		
	<b>Compliance with laws and regulations</b>				
	<b>Strategic planning and performance management</b>				
30	The municipality did not set appropriate key performance indicators as a yardstick for measuring performance, including outcomes and impact, with regard to the municipality's development priorities and objectives set out in its integrated development plan (IDP) as required by section 41(a) of the MSA.	The IDP will be corrected to comply to the MSA	IDP Manager	01/01/2013	31/05/2013
31	The municipality did not set measurable performance targets with regard to each development priority and objective as required by section 41(b) of the MSA.	The IDP will be corrected to comply to the MSA	IDP Manager	01/01/2013	31/05/2013
	<b>Budgets</b>				
32	Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.	The over expenditure was mainly attributed by the increase in the bad debt provision and the depreciation charges. This was the first time that the municipality depreciated its assets	CFO/Financial Manager	Done	Done
	<b>Annual financial statements, performance and annual reports</b>				
33	The annual performance report for the year under review does not include the performance of the municipality and its service provider for electricity a comparison of the performance with set targets, a comparison with the previous financial year and measures taken to improve performance, as required by section 46(1)(a),(b) and (c) of the MSA.	The annual performance report for 2012/13 will be prepared according to section 46 of the MSA.	PMS Manager	01/01/2013	15/08/2013
34	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 non-current assets, current assets, liabilities, revenue, expenditure and	The municipality will ensure that the AFS be reviewed before it is handed over to the AG to prevent material misstatements	CFO	01/07/2013	15/08/2013

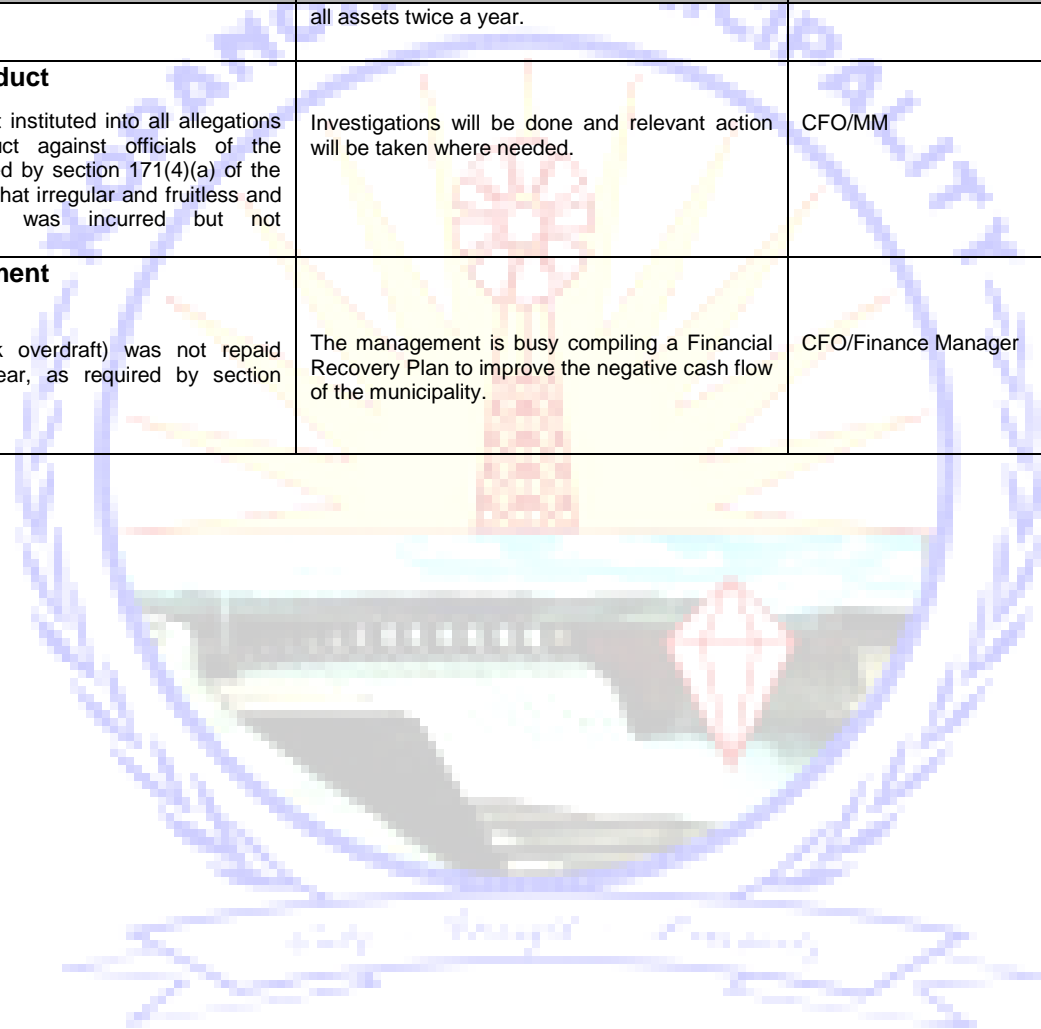
No	AUDIT COMMENT / FINDING	MANAGEMENT RESPONSE	PERSON	START DATE	END DATE
			RESPONSIBLE		
35	<p>disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a disclaimer audit opinion.</p> <p>The municipal council did not adopt an oversight report containing comments on the annual report, within two months from the date on which the 2010-11 annual report was tabled, as required by section 129(1) of the MFMA.</p>	Care will be taken in future to ensure that the Oversight Committee reports back to Council within two months after the Annual Report was tabled	Municipal Manager	31/01/2013	31/03/2013
36	<p><b>Internal audit</b></p> <p>The internal audit unit did not audit the performance measurements on a continuous basis as required by municipal planning and performance management regulation 14(1)(c), as information pertaining to the third and fourth quarter's performance was not submitted.</p>	The Internal Audit Section will audit the PMS on a continuous basis in 2012/13.	Chief Internal Auditor	01/07/2012	15/08/2013
37	<p><b>Procurement and contract management</b></p> <p>Goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations as required by municipal supply chain management regulations (SCM) regulations 17(a) and (c).</p>	The relevant quotations are now been obtained.	SCM Officer	On-Going	On-Going
38	Bids were not always evaluated by a bid evaluation committee which composed of at least one SCM practitioner of the municipality as required by SCM regulation 28(2).	Due to the limited number of personnel it is not always possible to have the correct employees in all committees. The Municipal Manager will correct the composition of the committees	Municipal manager	31/01/2013	28/02/2013
39	Bid adjudication was not always done by committees which were composed in accordance with SCM regulation 29(2).	Due to the limited number of personnel it is not always possible to have the correct employees in all committees. The Municipal Manager will correct the composition of the committees	Municipal Manager	31/01/2013	28/02/2013
40	Bid specifications were not always drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).	This had been corrected.	Municipal Manager	Completed	Completed

No	AUDIT COMMENT / FINDING	MANAGEMENT RESPONSE	PERSON	START DATE	END DATE
			RESPONSIBLE		
41	Invitations for competitive bidding were not always advertised for a required minimum period of days, as required by SCM regulation 22(1) and 22(2).	The municipality will ensure that it advertise correctly in future	All Directors	On-Going	On-Going
42	Sufficient appropriate audit evidence could not be obtained that awards were not made to bidders other than those recommended by the bid evaluation committee unless it was ratified by the accounting officer, as required by SCM regulation 29(5)(b).	The minutes of all the meetings of the bid committees are now been kept.	Technical Director/ SCM	On-going	On-going
43	The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.	The performance of contractors and providers will in future be monitored on a monthly basis	All Directors	Monthly	Monthly
44	Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act, 2000 (Act No. 38 of 2000) and CIDB regulation 18.	The municipality will ensure that all contractors of construction projects are registered with CIDB.	Technical Director	On-going	On-going
45	<b>Human resource management and compensation</b> The competencies of the municipal manager, financial and SCM officials were not assessed promptly in order to identify and address gaps in competency levels as required by the municipal regulations on minimum competency levels (GNR.493 of 2007) regulation 13.	The competencies of the Municipal Manager, Financial and SCM Officials will be assessed during the 2012/13 financial year.	Director Corporate	01/02/2013	28/02/2013
46	<b>Expenditure management</b> 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.	The management is busy compiling a Financial Recovery Plan to improve the negative cash flow of the municipality.	CFO / Financial Manager	01/07/2012	31/03/2013
47	An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred and accounted for creditors, as required by section 65(2)(b) of the MFMA.	The creditor module will be implemented during the 2012/13 financial year.	Financial Manager / Expenditure Accountant	01/11/2012	28/02/2013
48	The accounting officer did not take reasonable steps to prevent irregular expenditure and fruitless and	Steps had been taken to prevent these expenditures but the biggest problem is	CFO / SCM Officials	01/07/2012	On-going



No	AUDIT COMMENT / FINDING	MANAGEMENT RESPONSE	PERSON	START DATE	END DATE
			RESPONSIBLE		
49	wasteful expenditure, as required by section 62(1)(d) of the MFMA.  Irregular, fruitless and wasteful expenditure was not adequately investigated and therefore could not be recovered from the liable person, as required by section 32(2) of the MFMA.	contracts that come over from previous years.  These expenditures will be investigated and reports will be taken to Council.	CFO	01/02/2013	31/07/2013
50	<b>Transfer of funds and/or conditional grants</b>  The municipality did not timeously submit project registration forms, for projects it intended implementing in the financial year under review, to the Department of Local Government, as required by the <i>Division of revenue grant framework, Government Gazette No.34280</i> .	Project form will be sent in time in future.	Director: Technical Services	On-going	On-going
51	Sufficient appropriate audit evidence could not be obtained that unspent conditional grant funds not committed to identifiable projects and not approved by National Treasury for retention were surrendered to the National Revenue Fund, as required by section 20(1) of the DoRA.	The only unspent funds were that received from MSIG and an application for a roll-over was send to National Treasury.	CFO	Completed	Completed
52	The municipality did not submit MFMA implementation plans to National Treasury to address weaknesses in financial management, as required by the <i>Division of revenue grant framework, Government Gazette No.34280</i>	The municipality had now compiled implementation plans for both the FMG and MSIG and it was submitted to National Treasury for the 2012/13 financial year.	CFO	Completed	Completed
53	<b>Revenue management</b>  An adequate management, accounting and information system was not in place which recognised revenue when it was earned and accounted for debtors, as required by section 64(2)(e) of the MFMA	The Income Section is busy with a 100% audit of each debtor's account to ensure that all accounts are correct and that the information on the system is correct.	Income Accountant/Chief Accountant/Rates Accountant	01/12/2011	30/06/2013
54	<b>Asset management</b>  An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.	A system whereby each person must count his/hers assets on a monthly basis was implemented. The Assets section will also count	Asset Accountant	01/07/2012	On-going

No	AUDIT COMMENT / FINDING	MANAGEMENT RESPONSE	PERSON	START DATE	END DATE
			RESPONSIBLE		
		all assets twice a year.			
55	<b>Financial misconduct</b> Investigations were not instituted into all allegations of financial misconduct against officials of the municipality, as required by section 171(4)(a) of the MFMA due to the fact that irregular and fruitless and wasteful expenditure was incurred but not investigated.	Investigations will be done and relevant action will be taken where needed.	CFO/MM	01/02/2013	31/07/2013
59	<b>Liability management</b> Short-term debt (bank overdraft) was not repaid within the financial year, as required by section 45(4)(a) of the MFMA	The management is busy compiling a Financial Recovery Plan to improve the negative cash flow of the municipality.	CFO/Finance Manager	01/07/2012	31/03/2013





# AUDIT COMMITTEE

KOPANONG LOCAL MUNICIPALITY

## REPORT OF THE KOPANONG LOCAL MUNICIPALITY AUDIT COMMITTEE - FOR THE YEAR 2011/12

### 1. Background

The Audit Committee was established on 1<sup>st</sup> September 2009. Its purpose is to provide:

- Independent assurance on the adequacy of governance, risk management and internal control processes;
- Independent scrutiny of the municipality's financial and non-financial performance to the extent that it affects the municipality's exposure to risk and weakens the control environment; and to
- Oversee the financial reporting process.

The key benefits of an Audit Committee can be seen as:

- Increasing public confidence in the objectivity and fairness of financial and other reporting;
- Reinforcing the importance and independence of internal and external audit and similar review processes;
- Providing additional assurance through a process of independent review; and
- Raising awareness of the need for adequate internal controls, effective performance and the implementation of audit recommendations and compliance with laws and regulations.

The Terms of Reference for the Committee are compiled in accordance with section 166 of the MFMA and the King III Report on Corporate Governance, and are enshrined in the Audit Committee Charter.

### 2. Audit Committee Members and Attendance

The Audit Committee consisted of five(5) members and was scheduled to meet four (4) times per annum in terms of its approved terms of reference. The members listed below were appointed for a period of three years.

During the year for which this report refers, seven (7) meetings were held and attendance of members is indicated hereunder:

Member	Number of meetings held	Number of meetings attended
Mr. M Segalo (Chairperson)	7	7
Mr. K Rapulungoane	7	5
Mr. S Majola	7	1
Mr. V Vapi	7	6
Ms. T Molelle ( <i>appointed 01/06/12</i> )	7	1

### **3. Audit Committee Responsibility**

The audit committee was established to assist in improving management reporting by overseeing internal and external audit functions, internal controls, and the financial reporting process, compliance with accounting policies, legal requirements, internal controls and other policies within the Municipality. It interacts with and evaluates the effectiveness of the external and internal audit processes and reviews compliance with the code of ethics.

The audit committee reports that it has complied with its responsibilities arising from Section 166 of the Municipality Finance Management Act (“the Act”) and Treasury Regulations 27.1.8 and 27.1.10. The audit committee consists of non-executive members including the chairperson and it has also adopted formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged most of its responsibilities as contained therein.

### **4. The adequacy and effectiveness of governance, risk management and control**

The internal audit unit of the Municipality has furnished the audit committee with reports of its evaluation of the adequacy and effectiveness of governance, risk management and internal control processes within the Municipality. It is the view of the committee that, although, the governance, risk management and internal control processes are partly adequate and partly effective efforts are put in place to improve the internal control environment of the Municipality.

#### ***Governance***

All significant structures and processes that provide strategic direction are in place and functioning as intended. The structures referred to include the Council, the Audit Committee, the SMS, the Executive Management and the Internal Audit Unit.

#### ***Risk Management***

Kopanong Municipality has developed and approved a risk management strategy and established the Risk Management Committee for managing and monitoring of risks on an ongoing basis. During the period ending 30 June 2012, reports relating to risk management were presented to the Audit Committee. Based on the risk management reports presented, the Committee is satisfied that risk within the Municipality is reasonably managed.

### **Internal Controls**

Based on the reports presented to the Audit Committee by the Internal Audit Unit, the Audit Committee has noted that existing internal controls are partly adequate in most areas within the Municipality and therefore partly effective, during the financial year ended 30 June 2012.

### **5. The quality of management and monthly/quarterly reports submitted in terms of the Act**

The quality of in year management and monthly/quarterly reports submitted in terms of MFMA and the Division of Revenue Act is reasonable.

### **6. Evaluation of Financial Statements**

The Audit Committee has:

- Reviewed and discussed with the Accounting Officer the Audited Annual Financial statements to be included in the annual report;
- Reviewed the Accounting Policies and Practices
- Reviewed the Auditor General's management letter and management response; and
- Reviewed significant adjustments resulting from the audit.
- Reviewed the entities compliance with legal and regulatory provisions.

The Audit Committee concurs with and accepts the conclusions of the Auditor General on the annual financial statements and is of the opinion that the audited annual financial statements be accepted and read together with the report of the Audit General.

### **7. Conclusion**

The committee is grateful for the co-operation and support shown by the Municipal Manager, Ms. L. Moletsane, and her team throughout the reporting period.



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**Mr. MM SEGALO (CIA)**

Chairperson of the Audit Committee