

The background of the page is a deep blue gradient. Several water droplets are captured in mid-fall, creating a sense of motion. The droplets vary in size and are positioned around the central text. The lighting on the droplets is bright, highlighting their spherical shape and the way they refract light.

**REPORT OF THE
INDEPENDENT
AUDITORS AND
AUDIT & RISK
COMMITTEE**

11 INDEPENDENT AUDITORS REPORT

INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF LEPELLE NORTHERN WATER FOR THE YEAR ENDED 30 JUNE 2011

Report on the Financial Statements

Introduction

We have audited the accompanying financial statements of the Lepelle Northern Water, which comprise the statement of financial position as at 30 June 2011, statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory information, as set out on pages 102 to 138.

Accounting authority's responsibility for the financial statements

The Board of directors, who constitute the accounting authority for the Lepelle Northern Water, are responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Accepted Accounting Practice and the requirements of the Public Finance Management Act of South Africa and Water Services Act, 1997 (Act 108 of 1997) of South Africa, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Lepelle Northern Water as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Accepted Accounting Practice and the requirements of the Public Finance Management Act of South Africa and Water Services Act, 1997 (Act 108 of 1997) of South Africa.

Emphasis of matters

We draw attention to the matters below. Our opinion is not modified in respect of these matters:

Significant uncertainties

With reference to note 17 to the financial statements, the board is disputing interest charged on its outstanding debt for raw water purchases. The Department of Water Affairs is considering the proposal by Lepelle Northern Water's case with a view to make a decision on whether or not to waive interest. 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.

Restatement of corresponding figures

As disclosed in note 19 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of errors discovered during current year in the financial statements of Lepelle Northern Water.

Material impairments

As disclosed in note 8 to the financial statements, material impairments to the amount of R292 million were incurred as a result of impairment of accounts receivable.

Fruitless expenditure

As disclosed in note 23 to the financial statements, the Water Board incurred fruitless expenditure of R521 496 due to interest and penalties arising from late payment of supplier invoices and taxes due to the South African Revenue Service.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of General notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010, we include below our findings on the annual performance report as set out on pages 71 to 92 and material non-compliance with laws and regulations applicable to Lepelle Northern Water.

Predetermined objectives

There were no material findings on the report on predetermined objectives.

Compliance with laws and regulations

Annual financial statements, performance and annual report

The financial statements submitted for audit did not comply with section 40(1)(c)(i) of the PFMA. Material misstatements were identified during the audit, all of which were corrected by management.

The accounting authority did not finalise Lepelle Northern Water's report on performance against predetermined objectives in time to comply with the two months submission deadline after the entity's financial year end, as required by section 55(1)(c) of the PFMA.

Expenditure management

All payments due to creditors were not settled within 30 days from receipt of an invoice, as per the requirements of section 38(1)(f) of the PFMA and TR 8.2.3 resulting in interest expenditure of R 521 496.

Revenue management

The accounting authority did not take effective steps to collect all money due to the Lepelle Northern Water, as required in terms of section 38(c)(ii) of the PFMA, as 79% of total accounts receivable was provided as doubtful debt.

INTERNAL CONTROL

In terms of General notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010, we considered internal control relevant to our audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

Financial and performance management

Non-compliance with laws and regulations could have been prevented had compliance been reviewed and monitored.

Kwinana & Associates

Kwinana and Associates (Limpopo) Incorporated

Chartered Accountants and auditors

Tendai Mapenda

Registered auditor

31 October 2011

6A Pierre Street

Suite 2

Croniel Park Bendor Polokwane

0699

Tel: 015 296 4971

Fax: 086 501 3185

12 AUDIT AND RISK COMMITTEE REPORT

Risk & Audit committee members and attendance

The Audit Committee is pleased to present the report for the financial year ended 30 June 2011 as recommended by the Public Finance Management Act, Act 1 of 1999, as amended.

Audit committee responsibility

The Audit Committee reports that it has complied with its responsibilities arising from Section 51 (1) (a) (ii) of the Public Finance Management Act of 1999 and Treasury Regulations 27.1. The Audit Committee also reports that it has adopted appropriate formal terms of reference as per the charter dealing with membership, structure and levels of authority and duties that were approved by the Board and has regulated its affairs in compliance with this charter and has fulfilled its responsibilities as contained therein.

We have assisted the Board in fulfilling its oversight responsibilities by reviewing the financial reporting process, the system of internal control, management of business and financial risk, the audit processes and the LNW's process for monitoring compliance with accounting policies, legal requirements, legislation and regulations applicable to LNW and its own code of conduct.

Attendance of meetings

The Risk & Audit Committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference (Charter). During the current year six (6) meetings were held as follows:

Table 12-1: Attendance of meetings

NAME OF MEMBER	MEETINGS ATTENDED	MEETINGS NOT ATTENDED
Maimela PE	6	0
Malamba LLC	5	1
Manthata NJ	5	1
Pelser DW	4	2
Kgatla NME	3	3
Letsoalo JM	2	4
Lukhuleni MR	5	1

Internal Control systems and compliance

There has not been any material breakdown in the control environment. However, several deficiencies in the system of internal control and/or deviations from there were reported by the internal auditors and the external auditors. Management undertook to implement the audit recommendations in order to mitigate against the control weaknesses identified.

Internal audit

The Committee reviewed:

- The risk areas of the entity's operations covered in the scope of internal and external audits.
- The internal audit reports concerning the adequacy and effectiveness of the internal control systems; detailing concerns arising out of audits and ensured there are appropriate responses from management, which will result in the concerns being addressed.
- The internal audit function and the effectiveness of the internal audit activity.
- the activities of internal audit, including its annual plan, co-ordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendations.

Evaluation of the financial statements

The Committee reviewed:

- The audited annual financial statements to be included in the annual report, with external auditors and the Accounting Authority;
- The external auditors management letter and management responses thereto;
- Changes in accounting policies and practises;
- Significant adjustments resulting from the audit; and
- The Annual Financial Statements and recommended that they be adopted
- The entities compliance with legal and regulatory provisions;

We concur with and accept the External Auditors' report of the annual financial statements, and are of the opinion that the audited annual financial statements should be accepted and read together with the report of the External Auditors.

External Auditors

We have met with the External Auditors to ensure that there are no unresolved issues.

A handwritten signature in black ink, appearing to read 'P. Maimela', is written on a light-colored rectangular background.

Audit Committee (Mr. Maimela)

Date: 03 November 2011