

**REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE PROVINCIAL
LEGISLATURE AND THE MAFUBE LOCAL MUNICIPAL COUNCIL ON THE
FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF MAFUBE
LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2006**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Mafube Local Municipality which comprise the balance sheet as at 30 June 2006, income statement, and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the accounting officer's report, as set out on pages 31 to 65.

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 entity-specific basis of accounting, as set out in accounting policy 1 to the financial statements and in the manner required by the Local Government: 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) and section 126 of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit in accordance with the International Standards on Auditing. Because of the matters discussed in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis of accounting

4. The municipality's policy is to prepare financial statements on the entity-specific basis of accounting, as set out in accounting policy note 1 to the financial statements.

Basis for disclaimer of opinion

5. Property, plant and equipment

Due to the following matters it was not possible to verify the existence, rights and obligations, completeness, valuation and allocation and fair presentation of property, plant

and equipment in the sum of R177 021 258 (2005: R169 307 856), as disclosed in note 6 to the financial statements:

- (a) The fixed assets at cost according to the fixed asset register differ by R7 713 282 (2005: R28 895 781) from the total fixed assets disclosed in the financial statements due to the fact that the asset register has not been timeously updated during the current financial year.
- (b) Erven that are included in the fixed asset register with a cost of R1 298 177 were identified that are not registered in the name of Mafube Local Municipality. Consequently, fixed assets at cost and loans redeemed are overstated by R1 298 177.
- (c) A large number of assets (599 in total) are included in the fixed asset register at a cost of R10 or less. This is inconsistent with the accounting policy that states that assets are disclosed at cost or at valuation based on market price at the date of acquisition. The entity's records did not permit the application of alternative audit procedures. Consequently, fixed assets and loans redeemed are understated with an unknown amount.
- (d) The descriptions, serial numbers and location of items as indicated in the fixed asset register are not adequate. The required procedures to physically verify the existence, valuation and completeness of assets with a cost of R77 510 774 (2005: R71 406 781) could therefore not be performed.
- (e) A deeds register and title deeds to indicate the municipality's ownership of properties could not be submitted for audit purposes. Consequently I could not verify the rights and obligations of the municipality with regard to properties with a cost of R21 321 945 (2005: R9 910 046).
- (f) During the physical verification of assets, damaged assets with a cost of R1 006 890 were identified. The fixed asset register includes additional assets with a cost of R1 283 092 that are marked as damaged. No provision was made against loans redeemed for the impairment of these assets. Consequently assets and loans redeemed are overstated by an unknown amount.
- (g) Proof could not be submitted that the municipality performed a physical verification of assets during the year to ensure that all assets listed in the fixed asset register still exist and to ensure that all assets are included in the fixed asset register.
- (h) It is evident from the matters raised above that the procedures and practices implemented by the accounting officer were not consistently effective to ensure sufficient control over assets as required by section 63 of the MFMA. Therefore, as the relevant information is not available, it is not possible to determine what the total impact is of the matters listed above with regard to property, plant and equipment, expenditure and the accumulated surplus.

6. Debtors

- (a) The provision for bad debts that is included in note 10 to the financial statements, was evaluated by recalculating the provision based on the average rate of payments on debtors accounts. According to the recalculation the provision for bad debts should be approximately R39 600 000 (2005: R36 500 000). The provision of R 22 630 830 (2005: R20 762 518) and the related expense are therefore understated by at least R16 969 170 (2005: R15 737 482).

It is clear from the previous paragraph that an effective revenue collection system has not been implemented by the accounting officer as required by section 64(2)(a) of the MFMA.

- (b) A list of the debtors written off during the year was not submitted for audit purposes. Consequently, it could not be verified whether the amount of R2 131 688 as disclosed in note

10 to the financial statements, is accurate and that the accounts that are included on the list, are valid.

- (c) Supporting documentation to verify the existence, rights and obligations and valuation of consumer debtors totalling R115 660, included in consumer debtors amounting to R60 770 939 in note 10 to the financial statements, could not be submitted for audit purposes.
- (d) Supporting documentation to verify the existence, rights and obligations and valuation of sundry debtors totalling R3 755 881, included in other current debtors amounting to R6 336 320 in note 10 to the financial statements, could not be submitted for audit purposes.
- (e) An amount of R1 875 441 with regard to rates and taxes that are due to the municipality, is included in other current debtors in note 10 to the financial statements. The amount should have been included in consumer debtors in the same note to the financial statements. Consequently, other current debtors are overstated by R1 875 441 and consumer debtors are understated by the same amount.
- (f) A cheque that was cancelled was reversed against the creditor's control account and not the account it was originally debited against. Consequently, other debtors and trade creditors are overstated by R338 365.
- (g) Supporting documentation with regard to R 2 091 628 that is disclosed as amounts paid in advance in note 10 and amounts received in advance in note 11 to the financial statements could not be submitted. Consequently I could not verify the valuation, completeness and rights and obligations with regard to this amount.
- (h) The validity of the indigent subsidies amounting to R1 895 163 could not be verified as the applications could not be submitted.

7. Investments

A difference of R120 050 was identified between third party confirmations and investments that are disclosed in note 7 to the financial statements. Because the relevant information was not available, I could not determine how the receipts with regard to the sale of the investments were accounted for. Consequently investments and accumulated surplus or other creditors are overstated by R120 050.

8. Provisions

- (a) Supporting documentation was not submitted with regard to the provision for accrued leave amounting to R1 245 586 that is disclosed in note 3 to the financial statements. A recalculation of the provision was performed and a difference of approximately R114 700 was identified. Consequently provisions and salaries, wages and allowances are understated by approximately R114 700.
- (b) Due to the fact that the municipality incorrectly provided for audit fees at year end, expenditure in respect of audit fees for the year under review is overstated by R693 918 and the provision for audit fees at 30 June 2005 is overstated by R693 918.

9. Creditors

- (a) A difference of R278 727 was identified between the monthly statements for June 2006 received from the Department of Water Affairs and Forestry and the creditor balances that relate to the Department of Water Affairs and Forestry in the accounting records of the municipality. No reconciliation could be provided to explain

the difference. Consequently, creditors and trading services expenditure are overstated by R278 727.

- (b) An understatement of approximately R589 728 was identified regarding the value added tax (VAT) receivable with regard to creditor's accounts that carry VAT. Due to the fact that the relevant information is not available, it is not possible to determine the other accounts and the amounts whereby they are overstated or understated.
- (c) Supporting documentation with regard to unspent grants of R5 103 960 was not submitted for audit purposes. The municipality's records did not permit the application of alternative audit procedures to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness, valuation, existence and right and obligations with regard to unspent grants.
- (d) A receipt with regard to a grant was accounted for in an incorrect suspense account. The subsequent journal that was posted to correct the error was posted incorrectly. Consequently, other debtors and other creditors as disclosed in notes 10 and 11 respectively are overstated by R188 774.
- (e) Liabilities for fixed assets to be paid from a grant received were not recorded as a liability, except that the grant received is disclosed as a creditor. Fixed assets at cost and loans redeemed and other capital receipts are therefore understated by R136 779 and the allocation of creditors between trade creditors and other creditors as disclosed in note 11 to the financial statements is incorrect.

10. Funds and reserves

Although the municipality requested exemption from making contributions to the capital development fund in terms of section 82(1) of the Local Government Ordinance, 1962 (Ord No. 8 of 1962) proof that the exemption was granted could not be submitted. Consequently, the capital development fund is understated and retained surplus overstated by R2 436 539 due to the fact that no contributions were made since the 30 June 2002 financial year.

11. Revenue

- (a) The total rental that should be levied according to the property rental register is R269 927. The amount that is included in revenue for these specific rental contracts is R180 921. The revenue recognised is understated by R89 006. Because the relevant information is not available it is not possible to determine the amounts by which debtors are understated and creditors are overstated.
- (b) Supporting documentation regarding assessment rate income to the value of R408 335 could not be submitted. Consequently, it is not possible to verify the accuracy and validity of assessment rates to the value of R408 335 that is included in rates and general services income of R31 688 823 and the related consumer debtors.
- (c) Included in the actual expenditure for economic services is an amount of R4 848 757 with regard to free basic water and electricity. The expense was created by crediting an income account and debiting the expenditure account. This has the effect that the actual expenditure and actual income for economic services as disclosed in the income statement are overstated by R4 848 757 because the actual revenue and expenditure has already been included in the income statement. Furthermore, the amount is based on the budgeted amounts for free basic water and electricity because the financial systems of the municipality can not calculate the actual amounts.

- (d) Furthermore, the equitable share has been reallocated to the different services based on the amounts included in the budget. Consequently, the revenue for community services as disclosed in the income statement is understated by R7 850 341. The revenue as disclosed in the income statement for subsidised services, economic services and trading services are overstated by R639 788, R1 967 993 and R5 242 560 respectively.

12. Capital commitments

- (a) Mafube Local Municipality did not maintain a contract register that indicate approved contracts, the amount spent on these contracts and the amount that was still available to be spent. Consequently, I was not able to confirm the completeness and accuracy of the capital commitments of R1 771 197 (2005: R2 055 854) as disclosed in note 32 to the financial statements.

The budgeted amount for each project, and not the actual contract value, was used to calculate the capital commitment balance that is disclosed in note 32 to the financial statements. Consequently, capital commitments are understated by R222 598.

- (b) Furthermore, the capital commitments note is not complete as the following information, as required by the Specimen of the Published Annual Financial Statements for Local Authorities, published by the Institute of Municipal Finance Officers (IMFO) is not disclosed:
- (i) Commitments in respect of capital expenditure:
 - Approved and contracted for and
 - Approved but not yet contracted for
 - (ii) The funding of the capital commitments.

13. Incomplete and incorrect disclosures in the financial statements

- (a) An amount of R5 699 274 is disclosed in note 23 to the financial statements as a prior year adjustment. No details have been disclosed with regard to the nature and reason for the adjustment. Furthermore note 23 to the financial statements does not disclose the contributions made from the operating account.
- (b) The valuation of municipal properties and residential and other - rateable properties as disclosed in note 13 to the financial statements is overstated by R2 892 400 and R226 150 respectively, when compared to the valuation roll. Furthermore, the valuation of residential and other - non-rateable properties is understated by R 3 145 100 when compared to the valuation roll.
- The total of the valuations in the 2005-06 financial statements is the same as the total of the valuations in the 2004-05 financial statements. Appendix F however indicates that the number of stands increased from 13 127 in 2005 to 13 432 in 2006.
- (c) Legal confirmations that were obtained indicated that a contingent liability of R150 000 was not disclosed in note 34 to the financial statements. Contingent liabilities are understated by R150 000.
- (d) The actuarial valuations of the different pension funds towards which the council made contributions were not disclosed in the financial statements as required by the Specimen of the Published Annual Financial Statements for Local Authorities, published by Institute of Municipal Finance Officers (IMFO).
- (e) I am not able to confirm whether or not the cash flow statement and the related notes are fairly stated due to the material effect on the cash flow statement and related notes, of scope limitations and identified misstatements as reported in this report.

- (f) The information with regard to the outstanding amounts as disclosed in note 34 C to the financial statements regarding taxes, pension contributions and medical aid contributions are understated by R14 342, R1 074 538 and R24 990 respectively.

Furthermore, supporting documentation could not be submitted with regard to the amounts paid that is disclosed, in 34 C to the financial statements. I could therefore not verify the accuracy and completeness of the information with regard to payments that is disclosed in note 35 to the financial statements.

14. Irregular expenditure

For payments totalling R215 524 the number of quotations as required by paragraph 12 of the Local Government: Municipal Finance Management Act (56/2003): Municipal Supply Chain Management Regulations was not obtained. The amount was not disclosed in the financial statements as irregular expenditure.

15. Limitation of scope

Contrary to section 62(1)(b) of the MFMA and section 15 of the PAA, the municipality did not furnish the following supporting documentation. This resulted in a limitation on the scope of my audit.

- (a) For payments totalling R39 626 the relevant supporting documentation was not submitted. It could therefore not be verified that these transactions occurred and were accurately recorded and that irregular expenditure was not incurred.
- (b) For contracts totalling R10 347 7034 the relevant contracts could not be submitted to verify the completeness, accuracy, occurrence and existence of expenditure of R8 442 273 and commitments of R987 084.
- (c) Although tenders were invited for payments totalling R841 729 the relevant tender documents could not be submitted for audit purposes.
- (d) Issue vouchers with regard to the issue of stock to the value of R236 528 could not be submitted for audit purposes.
- (e) For journals totalling R18 700 126 (2005: R22 207 972) the relevant supporting documents were not available. Journals for corrections amounting to R11 289 786 made on the accounting system were also not available. It could therefore not be verified whether these journals were accurately recorded and were valid.
- (f) During the year allowances were paid to employees to equalise the salaries throughout the municipality until job evaluations have been completed. The interim allowances paid during the year were R150 263 more than it should have been if the allowances were calculated according to the recommendations by SALGA. No supporting documentation could be submitted to allow me to verify the authorisation for and accuracy of allowances amounting to R101 612.
- (g) Support for the monthly salaries and benefits payable to a number of employees could not be obtained in the respective personnel files. Consequently, it was not possible to verify whether salaries amounting to R1 297 710 have been accurately recorded and are valid.

Disclaimer of opinion

16. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have been unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of

Mafube Local Municipality. Accordingly, I do not express an opinion on the financial statements.

EMPHASIS OF MATTER

17. Assessment rates disclosed in note 13 of the financial statements amounts to R4 043 844 while Appendix E to the financial statements discloses assessment rates as R6 513 097. The difference amounts to R2 469 253.

OTHER MATTERS

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

18. Material non-compliance with applicable legislation

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

(a) Financial statements

Section 122(1)(a) of the MFMA requires every municipality to prepare financial statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year. The financial statements submitted to the Auditor-General on 29 August 2006 for the 2005-06 financial year however, contained a number of errors as set out in this report.

(b) Payments not made within 30 days

Contrary to section 65(2)(e) of the MFMA, creditors with a balance of R4 931 263 have been outstanding for longer than 30 days.

(c) Salary payments to third parties

Included in other creditors in note 13 to the financial statements, is an amount of R1 638 307 with regard to salary deductions that are payable to third parties. This is contrary to section 65(2)(f) of the MFMA which requires the municipality to comply with its tax, pension, medical aid and other statutory commitments.

(d) Supply chain management

In at least 3 instances the tender committee decided to award a tender to a different bidder than the one recommended by the consultants that were appointed to evaluate the bids. Furthermore, the same members serve on the bid evaluation committee and the adjudication committee. It could therefore not be determined if these tenders were awarded according to a regulatory framework that is fair, equitable, transparent, competitive and cost-effective as required in terms of section 112(2) of the MFMA.

(e) Matters reported in prior financial years

In terms of section 131(1) of the MFMA the mayor is responsible to ensure that the matters raised by the Auditor-General in an audit report are addressed. It is of particular concern that a number of matters reported in prior audit reports had not been adequately addressed. Examples of these matters include the following:

- the matters regarding the fixed asset register as set out in paragraph 5,

- the recovery of outstanding debt as set out in paragraph 6,
- documentation that could not be submitted for audit purposes as set out in paragraph 16, and
- contributions that were not made to the capital development fund as set out in paragraph 10.

As reported in paragraph 5.1.3 of the 2003-04 audit report, possible irregularities regarding the appointment of a debt collection firm to whom commission amounting to R298 882 was paid occurred. These matters have not yet been resolved or reported on by council.

Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA):

(f) No written annual performance agreements

Contrary to section 57(1) and (2) of the MSA, there are no written and signed annual performance agreements in place for the municipal manager and the managers directly accountable to him for the 2005-06 financial year.

(g) Declaration of interest

Declaration forms signed by the councillors to disclose any direct or indirect personal or private business interest which that councillor, or any spouse, partner or business associate of that councillor, may have in any matter while serving before the council, as required by Sections 7(1) and 5(1)(a) of the MSA, was only submitted for 11 of the 17 councillors. Only 10 of the declaration forms could however be submitted for audit purposes.

(h) No credit control or debt collection policy

The municipality has not yet adopted and implemented a credit control and debt collection policy as required by section 96 of the MSA. This is a big contributing factor in the deterioration of the outstanding debtors at year-end as set out in paragraph 6 above.

Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000).

(i) No procurement policy

Section 2 of the Preferential Procurement Policy Framework Act, 2000 requires that the municipality should have a formally documented procurement policy. A formally documented procurement policy could not be submitted for audit purposes.

Remuneration of Public Office Bearers Act

(j) Payments to councillors

Contrary to section 167(1) of the MFMA and section 7 of the Remuneration of Public Office-Bearers Act, 1998 (Act no. 20 of 1998) the municipality paid R62 000 for the accommodation of a councillor at a resort during the year after the councillor's house was burnt down during riots.

Contrary to *Government Gazette No. 28331* dated 14 November 2005, the mayor received an office bearers allowance amounting to R40 999.

19. Matters of governance

(a) Internal audit and audit committee

Mafube Local Municipality did not have a functioning internal audit section or an audit committee for the year under review.

An audit committee and a properly functioning internal audit section is an integral part of the control environment of an organisation. The absence thereof leads to the deterioration of the internal control environment.

(b) Trading services

Paragraph 42 of GA110: *Statement of Generally Accepted Accounting Practice for Local Government* stipulates that the provision of a trading service should yield a trading surplus. According to the income statement trading services shows a deficit of R1 829 088 for the financial year.

20. Fruitless and avoidable expenditure

Owing to a continuous bank overdraft interest of R63 046 was paid for use of the facility.

21. Value-for-money matters

- (a) The municipality did not develop and adopt the appropriate systems and procedures to ensure fair, efficient, effective and transparent personnel administration as required by Section 67(1) of the MSA.
- (b) In terms of section 68 of the MSA a municipality must develop its human resource capacity to a level that enables it to perform its functions and exercise its powers in an economical, effective, efficient and accountable way, Many positions were identified that were vacant during the financial year that severely hampered the municipality in performing its functions.

Internal control

22. 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 of the matters indicated, as they relate to the five components of internal control. In some instances deficiencies exist in more than one internal control component.

Reporting item	Control environment	Assessment of risks	Control activities	Information and communication	Monitoring
Basis for disclaimer of opinion					
Property, plant and equipment			✓		
Debtors			✓		
Investments			✓		
Provisions			✓		
Creditors			✓		
Funds and reserves			✓		
Revenue			✓		
Expenditure			✓		

Reporting entity	Control environment	Assessment of risks	Control effectiveness	Material misstatements	Other information
Capital commitments			✓		
Incomplete and incorrect disclosures in the financial statements			✓		
Irregular expenditure			✓		
Limitation of scope			✓		
Emphasis of matter					
Disclosure error			✓		
Other matters					
Non-compliance with applicable laws and regulations			✓		
Matters of governance			✓		
Material corrections to the financial statements			✓		
Value for money matters			✓		

Control activities

23. The accounting officer did not ensure that adequate approved documented policies and procedures are in place for all important business processes, including the computer environment. This matter has been reported on for a number of years.

Unaudited supplementary schedules

24. The supplementary information set out on pages 25 to 32 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 them.

OTHER REPORTING RESPONSIBILITIES

Reporting on performance information

25. I was engaged to audit the performance information.

Responsibility of the accounting officer for the performance information

26. 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

27. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 646 of 2007*, issued in *Government Gazette No. 646 of 25 May 2007* and section 45 of the MSA.

28. 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.

29. 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)

30. Non-compliance with regulatory requirements

(a) Amendment of the IDP

The following non-compliance with the Local Government: Municipal Systems Act, Act No. 32 of 2000 (MSA) and the Local Government: Municipal Planning and Performance Management Regulations, 2001 promulgated in *Government Notice No. R 796* dated *24 August 2001* (MPPMR) was noted:

- (i) Supporting evidence that the municipal council adopted the amendments to the IDP as required by regulation 3(3) of the MPPMR could not be submitted for audit purposes. The council resolution of 30 March 2006 for the approval of the reviewed IDP was obtained but the attendance register of this meeting was not submitted to ensure that a quorum was present. The validity of the resolution could therefore not be confirmed.
- (ii) Supporting evidence that the municipality consulted with the relevant district municipality prior to the amended IDP being submitted to council, as required by regulation 3(6) of the MPPMR, could not be submitted for audit purposes.
- (iii) Proof that the municipal manager submitted a copy of the amended IDP to the Member of the Executive Council for local government in the province within 10 days of the amendment of the plan, as required by Section 32(1) of the MSA, could not be submitted for audit purposes.
- (iv) Minutes to ascertain that the community participation forum took part in the review of the IDP could not be submitted.

(b) Development and implementation of Performance Management System (PMS)

The following non-compliance with sections of the MSA and the MPPMR were noted:

- (i) During the 2004-05 financial year the municipality did not review its framework for the PMS nor was it reviewed for the year under review as required by section 40 of the MSA. Furthermore, the PMS does not clarify the process of implementing the system within the framework of the IDP process, or that it is linked to the IDP process and the frequency of reporting and lines of accountability as required by regulation 7(2) of the MPPMR.
- (ii) Proof that the municipality convened regular meetings with the community forum to consult on the development of the framework for the PMS and the development of the PMS as required by section 42 of the MSA and regulation 15 of the MPPMR, could not be submitted.
- (iii) Evidence that the community forum members were given at least 14 days to consult with their constituencies regarding the matters to be discussed at these meetings, in terms of regulation 15(2) of the MPPMR, could not be submitted.
- (iv) Proof that the executive committee managed the development of the municipality's PMS in terms of section 39(a) of the MSA could not be submitted, nor could proof the responsibilities were assigned to the municipal manager by the executive committee with regard to the development of the PMS, as required by section 39(b) of the MSA be submitted.

The above had the effect that sections 38, 39(c), 41(1)(a) and 44 of the MSA and regulation 15 of the MPPMR were not adhered to regarding the adoption, implementation, monitoring and review of the PMS.

(c) Development and implementation of Key Performance Indicators (KPI)

- (i) The municipality did not develop, adopt and implement formally documented Key Performance Indicators (KPI's) which include the prescribed KPI's as required by regulation 10 of the MPPMR. It also did not draft and adopt a formally documented process to assist with the development of the KPI's. As a result, no proof could be obtained that the municipality set or reviewed appropriate KPI's in terms of its performance management system as a yardstick for measuring performance, including outcomes and impact in terms of section 41(1)(a) of the MSA.
- (ii) The municipality's PMS does not prescribe an annual performance review process for the review of the KPI's as required by regulation 13(1) and 13(4) of the MPPMR.
- (iii) No proof could be obtained that the local community was invited to participate in the setting of appropriate KPI's for the municipality in terms of 42 of the MSA.
- (iv) No input, output or outcome indicators were included in the development priorities and objectives identified in the IDP as required by regulation 9(1)(a) of the MPPMR.
- (v) Proof that KPI's are set for all municipal administrative units and employees and for all the service providers with whom the municipality have entered into a service delivery agreement as required by regulation 9(2)(b) of the MPPMR could not be submitted for audit purposes.

(d) Setting of targets for performance indicators

No proof could be submitted to confirm that the municipality set specific targets for each of the KPI's to be adopted. In addition, proof was not available to confirm whether management drafted and adopted a formally documented process to assist with the setting of targets for

each of the to be developed KPI's as required by section 41(1)(b) of the MSA and regulation 12(1) of the MPPMR.

(e) Actual service delivery

The municipality did not track the performance of their staff as well as service providers during the actual service delivery process and did not draft and adopt a formally documented process to assist with tracking the performance of staff and service providers. As a result, no evidence could be obtained that the municipal staff reported on service delivery in accordance with the lines of accountability and the intervals for reporting, nor was supporting documentation available to verify that each service provider reported on the delivery of their services to the municipality in accordance with the lines of accountability as required in terms of the Department of Provincial and Local Government - Performance Management Guide for Municipalities.

(f) Internal monitoring

The municipality did not continuously monitor and compare their actual and targeted progress and did not draft and adopt a formally documented process to assist with the continuous monitoring and comparison of results. As a result no proof could be obtained that the municipality developed its monitoring framework after consultation with either the municipal wide structure for community participation or the community participation forum, nor monitor its performance and any service provider's performance throughout the financial year in terms of section 41(1)(c) of the MSA and regulation 13 of the MPPMR.

(g) Internal control

The municipality, as part of its internal control, does not have an internal audit activity as prescribed by section 45(a) of the MSA and regulation 14(1) of the MPPMR.

In addition, there is no performance audit committee in place as is required by regulation 14(2) of the MPPMR.

(h) Performance Measurement and reporting

The municipality, as part of its performance management system, has not compiled a performance measurement framework or consulted with either the municipal wide structure for community participation or the community participation forum in terms of regulation 13(1) of the MPPMR. As a result the municipality could not measure its own and any service provider's performance in terms of section 41(1)(c) of the MSA.

Furthermore, the municipality did not establish a cycle and process of performance reporting in terms of Section 41(1)(e) of the MSA and regulation 7(1) of the MPPMR.

The municipality's draft performance report for inclusion in the annual report for the financial year under review was not submitted as required by section 46 of the MSA, and therefore I could not confirm that the following is reflected:

- The municipality's and any service provider's performance during that financial year, also in comparison with targets of and with performance in the previous financial year.
- The development and service delivery priorities and the performance targets set by the municipality for the following financial year.
- The measures that were or are to be taken to improve performance.
- Any other reporting requirements stipulated in other applicable legislation.

(i) Revision on strategies and objectives

The municipality did not review its strategies and objectives based on its actual and targeted results and did not draft and adopt a formally documented process to assist with the revision of their strategies and objectives. As a result it could not be confirmed whether the municipality established a cycle and processes of performance review and improvement, whereby the municipality's strategies and objectives are revised in accordance with the review of the performance of the municipality in terms of section 34 of the MSA and regulation 7(1) of the MPPMR.

DELAYS IN THE FINALISATION OF THE AUDIT

31. I was not able to finalise the audit within three months of receiving the financial statements as prescribed by section 126(3)(b) of MFMA as I did not have the resources available due to other responsibilities in terms of Public Finance Management Act, 1999 (Act No. 1 of 1999).

APPRECIATION

32. The assistance rendered by the staff of the Mafube Local Municipality during the audit is sincerely appreciated.

Bloemfontein

30 April 2008



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