

**REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE MAFUBE LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I was engaged to audit the accompanying financial statements of the Mafube Local Municipality which comprise the statement of financial position as at 30 June 2009, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages [xx] to [xx].

**The 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 Statements of Generally Recognised Accounting Practice (Statements of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) 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.

**The Auditor-General's responsibility**

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 conducting the audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. 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.
4. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Mafube Local Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

**Basis for disclaimer of opinion**

**Property, plant and equipment**

5. For reasons as detailed below I was unable to obtain sufficient appropriate audit evidence as to the existence, completeness and valuation of and rights relating to property, plant and equipment to the value of R208 542 470 (2008: R198 443 172), as disclosed in the statement of financial position and the related detailed disclosure in note 10 to the financial statements.

- (a) The municipality did not maintain a reliable record of property, plant and equipment that contained all relevant information for the proper identification of property, plant and equipment to the value of R219 164 057 (2008: R208 828 891). As a reliable record containing all relevant information on property, plant and equipment was not available, sufficient appropriate audit evidence as to the completeness and existence of assets could not be obtained.
- (b) Supporting documentation for additions amounting to R11 823 536 (2008: R17 072 683) according to note 10 to the financial statements could not be provided for audit purposes. Furthermore, additions amounting to R754 444 included in the additions mentioned above could not be traced to the general ledger. Appropriate audit assurance was therefore not available to confirm whether these transactions occurred and were accurately recorded.
- (c) The value of fixed assets according to the fixed asset register was R61 494 989 (2008: R3 666 832) less than the total fixed assets disclosed in the financial statements. Furthermore, the cost price of the property, plant and equipment per note 10 to the financial statements was R33 676 474 more than the amount per the general ledger.
- (d) Projects with a total cost of R24 921 994 were completed during the 2008 financial year, but the completed projects were still not capitalized, resulting in an understatement of assets in the financial statements.
- (e) Although assets with a value of R835 091 were transferred to the Free State Department of Health and vehicles with a value of R227 639 were stolen during a previous financial year, these assets are still included in the fixed asset register of the municipality. Furthermore, assets sold with a cost price of R2 887 572 were not removed from the asset register. Due to the lack of adequate accounting records we could not determine whether the transactions were properly accounted for in the general ledger and the financial statements.
- (f) Based on the shortcomings listed below the introduction of depreciation was not sensibly applied. Consequently, sufficient appropriate audit assurance as to the valuation of the accumulated depreciation balance amounting to R11 966 451 (2008: R10 385 764), as well as depreciation written off for the current financial year of R1 655 857, could not be obtained. Due to the extent of the weaknesses and shortcomings in the records no alternative procedures could be performed.
  - identify significant components to be depreciated separately or estimate the residual values of assets
  - make an estimation of when infrastructure was available for use (the date when depreciation begins)
  - determine acquisition dates for assets purchased.
- (g) The carrying value of property, plant and equipment as disclosed in note 10 to the financial statements differs by R1 344 864 from the carrying value as disclosed in the statement of financial position.

Due to the extent of the weaknesses in the fixed asset records of the municipality and the lack of sufficient appropriate supporting documentation, I could also not perform reasonable alternative procedures to obtain all the documentation and explanations deemed necessary.

#### **Consumer debtors**

- 6. For reasons as detailed below I was unable to obtain sufficient appropriate audit evidence as to the existence, completeness and valuation of and rights relating to debtors amounting to R26 136 734 (2008: R54 193 789), as disclosed in the statement of financial position and the related detailed disclosure in notes 15 and 16 to the financial statements.

- (a) No supporting documentation could be submitted by management with regard to the adjustment of the provision for bad debts for the prior financial years from R49 995 602 to R17 991 262 as disclosed in note 15 to the financial statements. I could therefore not confirm whether these adjustments were accurately recorded and I could not gain adequate audit assurance as to the valuation of consumer debtors in the prior year.
- (b) According to paragraph 58 of the International Accounting Standard (IAS) 39, *Financial Instruments: Recognition and Measurement*, (IAS 39) an entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Contrary to the above, the municipality did not assess the consumer debtors, individually or by category, for any indication that these assets may be impaired. The provision for doubtful debts amounting to R49 996 277 is a general provision and was not made in accordance with IAS 39. As the relevant information was not available, I was not able to calculate what the impairment charge against trade and other debtors and bad debts expense should have been if IAS 39 had been applied correctly.
- (c) I was not able to obtain sufficient appropriate audit evidence as to the existence of debtors amounting to R40 855 142, as I could not obtain evidence that subsequent payments were made by the consumers or that consumers had payment agreements.
- (d) Paragraph 46(a) of the Statement of Generally Accepted Accounting Practice IAS 39 (AC133) *Financial Instruments: Recognition and Measurement* requires that after initial recognition, an entity shall measure loans and debtors at amortised cost using the effective interest rate method. Contrary to the above requirements, debtors as disclosed in notes 15 and 16 to the financial statements are not measured at amortised cost. Due to the extent of the weakness and the limitation of scope regarding the accounting records of the municipality, I was unable to quantify the misstatement.
- (e) The municipality in cooperation with a bank installed automated teller machines (ATM) for the use of employees at two of their units. The balance of ATM advances made to the bank according to the general ledger amounted to R1 296 708. This amount was not included in the debtors balances disclosed in the statement of financial position in note 15 or 16 to the financial statements. Sufficient and appropriate supporting documentation regarding this receivable was not available. The municipality's records did not permit the performance of alternative audit procedures regarding this balance. Consequently, I could not gain adequate audit assurance as to the existence, valuation and rights and obligations relating to this receivable account and I could not determine the effect of the error on the assets and liabilities as disclosed in the statement of financial position and the income and expenditure as disclosed in the statement of financial performance.
- (f) The amount disclosed for debtors in the financial statements was R10 623 009 more than the amount disclosed for debtors according to the general ledger. The municipality's records did not permit the performance of alternative audit procedures regarding this unexplained difference.
- (g) Included in the other debtors as disclosed in note 16 to the financial statements was a VAT debtor amounting to R853 184. This amount is understated by R384 522 due to input VAT that could not be traced to the input VAT account, VAT that was not claimed on capital expenditure during the prior financial year and the incorrect claiming of VAT on a motor vehicle. Furthermore, the amount disclosed above could not be traced to the general ledger.
- (h) Sufficient and appropriate supporting documentation regarding indigents could not be obtained. As the relevant information was not available, I was not able to confirm whether any adjustments were required to be made to debtors in respect of indigents.

- (i) Sufficient and appropriate supporting documentation could not be obtained in respect of the upwards restatement of the prior year figure for debtors by R52 001 520.
  - (j) I was unable to obtain sufficient appropriate audit evidence in respect of other debtors amounting to R7 850 974 that were included in the other debtors disclosed in note 16 to the financial statements.  
Due to the extent of the weaknesses in the records of debtors and the lack of sufficient appropriate supporting documentation, I could also not perform reasonable alternative procedures to obtain all the documentation and explanations deemed necessary.
7. Debtors as disclosed in the statement of financial position and in note 15 to the financial statements include consumer debtors with credit balances amounting to R1 140 690 (2008: R4 071 163) that should have been transferred to creditors. Consequently, debtors and creditors are understated by R1 140 690 (2008: R4 071 163).
  8. Balances amounting to R608 869 for the prior financial year are included in other current debtors in note 16 to the financial statements. These balances relate to consumer debtors and should have been included in consumer debtors in note 15 to the financial statements. Consequently, other current debtors are overstated by R608 869 and consumer debtors are understated by the same amount for the prior financial year.
  9. Contrary to the requirements of paragraph 30 of Generally Recognised Accounting Practice GRAP 1: *Presentation of Financial Statements*, the municipality did not provide for service charges relating to the period between the last meter-reading date and the year-end date on an annual basis. Based on the estimated consumption calculated at the end of the financial year, consumer debtors is understated by R3 750 740 and the accumulated surplus brought forward from the prior year is understated by R3 050 118. Thus the service revenue for the year is understated by R700 622.

#### **Investments**

10. Investments for the 2008 financial year as disclosed in the statement of financial position and note 12 to the financial statements were restated from a credit of R3 768 738 to a debit of R133 203. Sufficient and appropriate supporting documentation could not be obtained in respect of this restatement of the prior year figure. Furthermore, the confirmation that was received from the relevant bank indicates that the balance of the investment for the prior year was R1 468 382 at year-end. Consequently, the corresponding balance of long-term investments is understated by R1 335 179. The balance for investments at 30 June 2009 as disclosed in note 12 to the financial statements was R3 801 069 more than the amount for investments according to the general ledger. I could thus not gain adequate audit assurance as to the existence, valuation and completeness of and rights and obligations relating to investments and I could not determine the effect of the uncertainty on the assets and liabilities as disclosed in the statement of financial position and the income and expenditure as disclosed in the statement of financial performance.

#### **Cash and bank**

11. A difference of R10 822 397 (2008: R11 345 256) was noted between the bank overdraft balance of R10 238 846 (2008: R1 888 207) as disclosed in the statement of financial position and note 18 to the financial statements, and the amount included as the cashbook balance in the year-end bank reconciliation and general ledger. Furthermore, material differences were noted on the line items included on the bank statements compared to the amounts captured in the cash book as identified from the bank reconciliation. The net difference that could not be explained amounted to R1 869 593 (2008: R8 745 423). Furthermore, there were material gaps in the sequence numbers of expenditure vouchers recorded in the cash book. Due to the lack of information I was also unable to perform

reasonable alternative audit procedures to provide me with the required audit assurance with regard to the bank balance. Consequently, I was unable to obtain sufficient appropriate audit evidence in respect of the valuation of the bank overdraft with a balance of R10 238 846 (2008: R1 888 207) as disclosed in the statement of financial position and note 18 to the financial statements.

12. The year-end bank reconciliation includes "debit orders" of R5 152 742 (2008: R4 982 087) that appear on the bank statement that were not processed in the cash book.

Consequently, the bank overdraft as disclosed in the statement of financial position and note 18 to the financial statements is understated by R5 152 742 (2008: R4 982 087). Because the relevant information is not available, it is not possible to determine the impact on expenditure, assets, creditors and investments.

13. Sufficient appropriate audit evidence regarding the restatement of the corresponding balances for bank overdraft with R7 568 843 and bank balances and cash with R1 401 834 could not be obtained. The municipality's records did not permit the performance of alternative audit procedures regarding these balances. Consequently, I could not gain adequate audit assurance as to the existence, valuation and completeness of and rights and obligations relating to these corresponding balances, and I could not calculate the effect of the adjustments on the assets and liabilities as disclosed in the statement of financial position or the income and expenditure as disclosed in the statement of financial performance.

#### **Inventories**

14. I could not obtain appropriate audit evidence as to the completeness, existence and valuation of and the municipality's rights to inventories disclosed as R277 727 (2008: R734 711) in note 14 to the financial statements, due to the lack of a proper system to account for inventory and inadequate procedures followed by the municipality during the year-end stock count. The balance for inventories at 30 June 2009 as disclosed in note 14 to the financial statements was R402 905 more than the amount for inventories according to the general ledger. The municipality's records did not permit the application of alternative procedures regarding inventory.

#### **Creditors**

15. For reasons as detailed below I was unable to obtain sufficient appropriate audit evidence as to the existence, completeness and valuation of and obligations relating to creditors to the value of R15 453 873 (2008: R37 294 324), as disclosed in the statement of financial position and the related detailed disclosure in note 6 to the financial statements.
- (a) I was unable to obtain documentation supporting trade and other creditors amounting to R14 266 260 (2008: R33 303 288) that were included in the trade and other creditors disclosed in note 6 to the financial statements. Consequently, I was not able to gain adequate audit assurance as to the existence and valuation of and rights and obligations relating to these creditors. Due to the lack of information and supporting documents I was also unable to perform reasonable alternative audit procedures to provide me with the required audit assurance.
- (b) Sufficient appropriate audit evidence could not be supplied to substantiate the restatement of the prior year figures for creditors from R35 964 959 to R37 294 324. The municipality's records did not permit the performance of alternative audit procedures regarding these balances. Consequently, I could not substantiate the effect of the adjustment on the assets and liabilities as disclosed in the statement of financial position or the income and expenditure as disclosed in the statement of financial performance.

- (c) Sufficient appropriate audit evidence could not be supplied to explain the difference between the general ledger balance for creditors amounting to R15 869 347 and the figure disclosed in the financial statements amounting to R15 453 873.
- (d) No supporting documentation could be obtained for debit journals that impacted on trade and other creditors amounting to R74 971 347. I could therefore not confirm the occurrence, accuracy and completeness of these transactions.
- (e) Although the general ledger indicates that the provision for audit fees amounted to R1 636 731 (2008: R1 329 364), this creditor was not disclosed in the financial statements. Furthermore, according to supporting documents the creditor in respect of audit fees amounts to R1 343 551 (2008: R1 322 502). Consequently, other creditors as disclosed in note 6 to the financial statements is understated by R1 343 551 (2008: R1 322 502) as well as expenditure as disclosed in the statement of financial performance is understated with the same amount.
- (f) I was unable to obtain sufficient appropriate audit evidence in respect of the accrual for leave amounting to R320 021 (2008: R307 368 debit) as disclosed in note 6 to the financial statements. Due to the lack of reliable leave records I was unable to confirm the existence, completeness and valuation of the accrual for leave.

Due to the extent of the weaknesses in the records of creditors and the lack of sufficient appropriate supporting documentation, I could also not perform reasonable alternative procedures to obtain all the documentation and explanations deemed necessary.

16. Paragraph 47 of IAS 39 states that after initial recognition, financial liabilities are measured at amortised cost using the effective interest method. Contrary to the above, expenses which have deferred payment terms were not discounted by the municipality. Furthermore, trade creditors as disclosed in note 6 to the financial statements were not carried at amortised cost. The municipality's records and information available did not permit the performance of alternative audit procedures regarding trade creditors. Consequently, I could not calculate the amounts by which trade and other creditors and interest were misstated.

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

17. For reasons as detailed below, I was unable to obtain sufficient appropriate audit evidence as to the existence, completeness and valuation of and obligations relating to unspent conditional grants and receipts amounting to R20 454 161 (2008: R256 000) included as a current liability in the statement of financial position and notes 7 and 21 to the financial statements.
  - (a) The balance of unspent conditional grants and receipts as disclosed in the financial statements could not be traced to the general ledger.
  - (b) Details and sufficient appropriate supporting documentation for the transactions relating to the expenditure incurred that resulted in the deduction as "conditions met – transferred to revenue" amounting to R11 418 000 as disclosed in note 21 to the financial statements could not be obtained.
  - (c) Government grants amounting to R550 000 received during the financial year were not included in note 21 to the financial statements. Furthermore, sufficient appropriate audit evidence did not exist to ensure that these funds were spent according to the conditions of the grants.

Due to the extent of the weaknesses in the records of conditional grants and the lack of sufficient appropriate supporting documentation, I could also not perform reasonable alternative procedures to obtain all the documentation and explanations deemed necessary.

18. Note 21 to the financial statements did not include disclosure on all allocations received from the national and provincial spheres of government and did not indicate how the allocation was spent per vote, whether the municipality complied with the conditions of the allocation, and if not, the reasons for the non-compliance, as well as whether any funds were withheld as required by section 123(1) of the MFMA.

#### **Long-term liabilities**

19. The balance disclosed in note 2 to the financial statements for long-term liabilities is R1 758 014 more than the balance according to the general ledger. I could not obtain sufficient appropriate audit evidence to explain the difference. Consequently, I could not gain adequate audit assurance as to the existence and valuation of long-term liabilities as disclosed in the statement of financial position.

#### **Accumulated surplus**

20. For reasons as detailed below I was unable to obtain sufficient appropriate audit evidence as to the existence, completeness, valuation and rights and obligations of accumulated surplus amounting to R2 385 802 (2008: R22 614 386), included as a net asset in the statement of financial position.
- (a) Sufficient appropriate audit evidence could not be supplied to substantiate the restatements of the prior year figures by R74 964 635. Furthermore, the amount disclosed in the financial statements for the current financial year differs from the general ledger by R102 854 154. The municipality's records did not permit the performance of alternative audit procedures regarding these restatements. Consequently, I could not gain adequate audit assurance as to the existence, valuation and completeness of and rights and obligations relating to this balance and I could not determine the effect of the adjustment on the assets and liabilities as disclosed in the statement of financial position or the income and expenditure as disclosed in the statement of financial performance.
- (b) No supporting documentation could be obtained for debit journals amounting to R68 243 600 and credit journals amounting to R15 345 530 that impacted on the accumulated surplus. I could therefore not determine whether these journals were valid and accurately recorded and could therefore not obtain adequate audit assurance as to the valuation of accumulated surplus. The municipality's records did not permit the performance of alternative audit procedures regarding these journals.
- (c) No supporting documentation could be obtained for debit transactions amounting to R11 013 187 and credit transactions amounting to R10 342 000 that impacted on the transfer between the accumulated surplus and reserve funds as disclosed in the statement of change in net assets. I could therefore not confirm whether these transactions were accurately recorded and could not obtain adequate audit assurance as to the completeness and valuation of accumulated surplus and reserves. The municipality's records did not permit the performance of alternative audit procedures regarding these journals.

21 Sufficient appropriate audit evidence as to the existence and valuation of and rights and obligations relating to the capital replacement, government grant and capitalisation reserve amounting to R6 721 622, R174 777 871 and R2 380 323 (2008: R8 203 158, R173 703 042 and R2 380 323) respectively could not be obtained, as supporting documentation and information relating to the creation and movement of these reserves could not be obtained. Funds and reserves amounted to R183 879 816 according to the statement of financial position while the general ledger indicated R11 659 977, resulting in an unexplained difference of R172 219 839.

## **Revenue**

22. Adequate audit assurance regarding the completeness, occurrence and accuracy of assessment rates revenue amounting to R6 278 447 (2008: R4 768 863) as disclosed in note 19 to the financial statements and the valuation and completeness of the related debtors disclosed in note 15 to the financial statements could not be obtained due to the following:

- (a) An assessment rates reconciliation that was performed based on the information included in the valuation roll that indicated a difference of R445 650 for the corresponding balance. No explanations or supporting documentation could be submitted by management to explain the difference.
- (b) An unexplained difference existed between the billing system and the amount disclosed in the financial statements. The revenue per the billing system was R1 936 983 lower than the amount disclosed in the financial statements.
- (c) An unexplained difference existed between the general ledger and the amount disclosed in the financial statements. The revenue per the general ledger was in debit and R12 000 728 lower than the amount disclosed in the financial statements.
- (d) Sufficient appropriate audit evidence could not be obtained as to the accuracy and occurrence of property rates – penalties imposed and collection charges as disclosed in the statement of financial performance amounting to R2 091 938.

Accordingly, I was not able to determine whether any adjustments might be necessary to the amounts disclosed in the financial statements for debtors, revenue, deficit for the year and accumulated surplus. In the absence of sufficient appropriate evidence, I was also not able to perform reasonable alternative procedures to obtain the required audit assurance in this regard.

23. Adequate audit assurance as to the occurrence, completeness and accuracy of service charge revenue amounting to R27 067 014 (2008: R16 859 880) as disclosed in the statement of financial performance and note 20 to the financial statements and the valuation and completeness of the related debtors disclosed in note 15 to the financial statements and the bank overdraft disclosed in note 18 to the financial statements could not be obtained due to the following:

- (a) Meter readings with regard to water and electricity usage amounting to R20 747 377 could not be submitted by management.
- (b) An unexplained difference existed between the billing system and the amount disclosed in the financial statements. The revenue per the billing system was R50 115 209 more the amount disclosed in the financial statements.
- (c) An unexplained difference existed between the general ledger and the amount disclosed in the financial statements. The revenue per the general ledger was in debit and therefore R36 975 932 lower than the amount disclosed in the financial statements.



- (d) The comparative figure for service charges was restated by R4 336 836. Sufficient appropriate audit evidence could not be obtained to support the restatement.
- (e) Cash receipts recorded on the prepaid system for prepaid electricity sales could not be traced to the general ledger and the bank deposits. Sufficient appropriate audit evidence could therefore not be obtained to confirm the occurrence and completeness of revenue from the sale of electricity amounting to R11 364 356 as disclosed in note 20 to the financial statements.
- (f) Several debtor accounts were identified that were not billed for services for August and September 2008. Due to the lack of information, I was unable to quantify the understatement of revenue and the corresponding debtor accounts in this regard.

Accordingly, I was not able to determine whether any adjustments might be necessary to the amounts disclosed in the financial statements for debtors, service charge revenue, deficit for the year and accumulated surplus. In the absence of sufficient appropriate evidence, I was also not able to perform reasonable alternative procedures to obtain the required audit assurance in this regard.

- 24. No receipts and deposit slips could be submitted for deposits in the bank account amounting to R52 227 314. I could therefore not determine whether these deposits were accurately recorded and could not obtain adequate audit assurance as to the allocation of deposits. Accordingly, I was not able to determine whether any adjustments might be necessary to the amounts disclosed in the financial statements for debtors, revenue, deficit for the year and accumulated surplus. In the absence of sufficient appropriate evidence, I was also not able to perform reasonable alternative procedures to obtain the required audit assurance in this regard.
- 25. Several debtors accounts included under consumer debtors in the statement of financial position and note 15 to the financial statements were identified that were incorrectly overcharged regarding water consumption. This resulted in consumer debtors being overstated by R5 141 123, revenue overstated by R4 509 757 and the VAT payable disclosed in note 8 to the financial statements being overstated by R631 366.
- 26. No supporting documentation could be submitted by management with regard to rental income transactions amounting to R529 519 (2008: R194 242) that were included in the rental income in the statement of financial performance to the value of R1 160 235. Accordingly, I could not obtain sufficient appropriate audit evidence with regard to the occurrence, completeness and accuracy of the amounts disclosed in the financial statements for rental income, and the valuation of debtors, deficit for the year and accumulated surplus. In the absence of sufficient appropriate evidence, I was also not able to perform reasonable alternative procedures to obtain the required audit assurance in this regard. Furthermore, an unexplained difference existed between the general ledger and the amount disclosed in the financial statements. The rental income per the general ledger was in debit and therefore R1 660 533 lower than the amount disclosed in the financial statements.
- 27. No supporting documentation or fine register could be submitted by management with regard to fines revenue amounting to R140 772 included in the statement of financial performance. Accordingly, I could not obtain sufficient appropriate audit evidence with regard to the occurrence, completeness and accuracy of the amounts disclosed in the financial statements for fine income, and the valuation of debtors, deficit for the year and accumulated surplus. In the absence of sufficient appropriate evidence, I was also not able to perform reasonable alternative procedures to obtain the required audit assurance in this regard.

28. Unexplained differences existed between the general ledger and the amounts disclosed in the financial statements for the following revenue line items in the statement of financial performance:
- (a) The interest earned on external investments per the general ledger was R53 190 less than the amount disclosed in the financial statements.
  - (b) The interest earned on outstanding debtors per the general ledger was R42 869 less than the amount disclosed in the financial statements.
  - (c) The licences and permits income per the general ledger was R98 069 less than the amount disclosed in the financial statements.
  - (d) The amount for government grants and subsidies per the general ledger was R10 174 892 less than the amount disclosed in the financial statements.
  - (e) The other income per the general ledger was in debit and therefore R1 272 656 less than the amount disclosed in the financial statements.
- Accordingly, I was not able to determine whether any adjustments might be necessary to the amounts disclosed in the financial statements for these revenue line items, debtors, deficit for the year and accumulated surplus. In the absence of sufficient appropriate evidence, I was also not able to perform reasonable alternative procedures to obtain the required audit assurance in this regard.
29. For the prior financial year, no supporting documentation could be submitted by management for journals that impacted on revenue by R781 928. I could therefore not determine whether these journals were valid and accurately recorded and could not gain adequate audit assurance as to the accuracy and classification of revenue. The municipality's records did not permit the performance of alternative audit procedures regarding these journals.
30. For the prior year, expenses that relate to grants were incorrectly allocated to income. The expenses should have been allocated to sundry creditors. Consequently, income from service charges as disclosed in the statement of financial performance for the 2008 financial year is understated by R1 842 119 and creditors as disclosed in note 6 to the financial statements is overstated by R1 842 119.
31. Sufficient appropriate audit evidence as to the completeness and accuracy of revenue for the prior year that was restated to R69 116 107 could not be obtained. The municipality's records did not permit the performance of alternative audit procedures regarding these balances. Consequently, I could not calculate the effect of the adjustment on the assets and liabilities as disclosed in the statement of financial position or the income and expenditure as disclosed in the statement of financial performance.
32. Paragraph 15 of the Statement of Generally Recognised Accounting Practice GRAP 9, *Revenue from Exchange Transactions* requires that income with deferred payment terms should be discounted. Contrary to the above requirements, income categories with deferred payment terms were not discounted. Consequently, the income from these income categories was overstated and interest received was understated. Due to the extent of the weakness and the limitation of scope regarding the accounting records of the municipality, I was unable to quantify the misstatement or perform alternative procedures.

## **Expenditure**

33. Adequate audit assurance as to the occurrence, completeness, classification and accuracy of the employee-related cost amounting to R32 607 004 (2008: R27 135 173) as disclosed in the statement of financial performance and note 23 to the financial statements could not be obtained due to the following:

- (a) The salary system was not reconciled to the general ledger by the municipality for the year under review, as well as for the prior year. The reconciliation of the total salary integration journals processed in the general ledger was R28 987 643 (2008: R4 424 665 more) less than the total salaries according to the salary system.
- (b) An unexplained difference existed between the salary system and the amount disclosed in the financial statements. The employee-related costs per the salary system were R1 267 182 more than the amount disclosed in the financial statements.
- (c) The monthly salary expenses for July 2008 were not captured on the salary system for the said month. An analytical review of the salary system further indicated that the monthly salary for August 2008 was approximately 5 times the average monthly salary. No explanations or supporting documentation could be obtained from management to explain this anomaly. This could result in the salaries per the salary run to be overstated by approximately R8 049 644 when taking the average monthly salary for the municipality into consideration.
- (d) Sufficient appropriate audit evidence could not be obtained to confirm the overtime and acting payments amounting to R1 501 160 as disclosed in note 23 to the financial statements.
- (e) The accuracy and the validity of salaries paid could not be confirmed, as certain employee contracts could not be supplied for audit purposes.
- (f) I could not obtain sufficient appropriate evidence to verify the occurrence and accuracy for travelling allowances amounting to R717 633 and wage payments amounting to R409 536.
- (g) I could not obtain documents supporting payments to third parties of R2 356 510. These amounts could also not be traced to the salary control account in the general ledger.
- (h) Employee costs according to note 23 to the financial statements amount to R38 141 270 (2008: R30 176 398) which is R5 534 266 (2008: R3 041 225) more than the amount disclosed in the statement of financial performance, as the remuneration of councillors was incorrectly included in note 23. Furthermore, the detailed breakdown of the prior year figure was not included in note 23.

I could therefore not determine whether employee-related costs were accurately recorded and could therefore not gain adequate audit assurance as to the accuracy, completeness occurrence and classification of employee costs. The municipality's records did not permit the performance of alternative audit procedures regarding these payments.

- 34. Sufficient appropriate audit evidence for payments amounting to at least R14 300 239 (2008: R532 684) in respect of expenditure was not submitted by management. Furthermore, payments amounting to R15 840 461 could not be traced to the general ledger and a further difference of R548 047 existed between the amounts paid per general ledger and the supporting documentation attached to these payments. I could therefore not gain adequate audit assurance as to the accuracy, occurrence, completeness and allocation of expenditure of R105 088 705 as disclosed in the statement of financial performance. The municipality's records did not permit the performance of alternative audit procedures regarding these payments.

35. An unexplained difference existed between the general ledger and the amounts disclosed in the financial statements for expenditure (excluding employee-related costs). The expenditure according to the general ledger was R2 509 962 less than the expenditure (excluding employee-related costs) as disclosed in the statement of financial performance. Accordingly, I was not able to determine whether any adjustments might be necessary to the amounts disclosed in the financial statements for these expenditure line items, creditors, deficit for the year and accumulated surplus. In the absence of sufficient appropriate evidence, I was also not able to perform reasonable alternative procedures to obtain the required audit assurance in this regard.
36. Adequate audit assurance as to the occurrence, completeness and accuracy of the remuneration of councillors amounting to R5 534 266 (2008: R3 041 225) as disclosed in the statement of financial performance and note 24 to the financial statements could not be obtained, as an unexplained difference existed between the general ledger and the amount disclosed in the financial statements. The councillors' remuneration per the general ledger was in credit and therefore R27 720 461 less than the amount disclosed in the financial statements. I could therefore not determine whether councillors' remuneration was accurately recorded and could not gain adequate audit assurance as to the accuracy, occurrence, completeness and classification of this expenditure. The municipality's records did not permit the performance of alternative audit procedures regarding these payments.
37. External confirmation was obtained regarding bulk purchases for the year under review and it was found that bulk purchases and creditors were understated by R1 421 925 in the financial statements compared to the external confirmation obtained.
38. I could not obtain sufficient appropriate audit evidence that goods and services amounting to R6 079 567 were delivered to the municipality. Consequently, I could not obtain sufficient appropriate audit evidence with regard to the occurrence of these expenditure transactions that are included in the total expenditure of R105 908 705 in the statement of financial performance. As the relevant information was not available, I could not perform reasonable alternative audit procedures.
39. Sufficient appropriate audit evidence could not be obtained that journals to raise creditors amounting to R14 266 260 at year-end were recorded. Therefore sufficient appropriate audit evidence as to the completeness of the expenditure and the completeness and valuation of creditors could not be obtained. The municipality's records did not permit the performance of alternative audit procedures regarding these journals.

#### **Cash flow statement**

40. I was not able to determine whether 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.

#### **Contractual commitments**

41. No disclosure note was included in the financial statements for the current year. I was unable to obtain sufficient appropriate audit evidence to provide me with audit assurance as to the completeness of the capital commitments at year-end. During the year commitments amounting to R24 825 050 were identified. The municipality's records did not permit the performance of alternative audit procedures to obtain adequate audit assurance on the amount to be disclosed for capital commitments at year-end in the financial statements.

### **Contingent liabilities**

42. Contingent liabilities amounting to R20 916 762 were not disclosed in the notes to the financial statements as required by paragraph 16 of the Statement of Generally Recognised Accounting Practice GRAP 19 *Provisions, contingent liabilities and contingent assets*.

### **Financial instruments**

43. In contravention of International Financial Reporting Standard (IFRS) 7 *Financial Instruments: Disclosures*, several qualitative disclosures relating to the different risks arising from the entity's financial statements, and how these risks were managed, were not made.

### **Presentation and disclosure**

44. I was unable to obtain sufficient appropriate audit evidence as to the completeness and valuation of the VAT payable amount disclosed in note 8 to the financial statements as R6 741 261. In the absence of sufficient appropriate evidence I was also not able to perform reasonable alternative procedures to obtain the required audit assurance in this regard.
45. Contrary to paragraph 75 of the Statement of Generally Recognised Accounting Practice GRAP 13 *Leases* that requires that the following be disclosed regarding operating leases, namely the future minimum payments aggregated for not later than one year, later than one year and not later than five years, and later than five years, the municipality did not disclose the said information in the notes to the financial statements.
46. The accounting policy on revenue for leases included in the financial statements as note 10 was materially inconsistent with GRAP 13 *Leases* that states that lease revenue from operating leases shall be recognised as revenue on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefit derived from the leased asset is diminished.
47. The accounting policy on property, plant and equipment included in the financial statements as note 4 did not disclose all relevant information regarding initial recognition, subsequent measurements – cost model, depreciation and impairment, de-recognition, impairment of assets, investment property recognition and de-recognition as required in terms of the Statement of Generally Recognised Accounting Practice GRAP 1 *Presentation of Financial Statements*. The fact that the municipality took advantage of the transitional provisions of the Accounting Standards Board in respect of fixed assets is also not disclosed in the financial statements.
48. The accounting policy on revenue included in the financial statements as note 10 was materially inconsistent with the requirements of the Statement of Generally Accepted Municipal Accounting Practice GAMAP 9 *Revenue* and paragraph 29 of Generally Recognised Accounting Practice GRAP 9 *Revenue*.
49. Contrary to the requirement of paragraph 28 of the Statement of Generally Recognised Accounting Practice GRAP 3 *Accounting policies, changes in accounting estimates and errors*, note 29 on the changes in accounting policy in the financial statements did not comply with the minimum disclosure requirements laid down in the statement.
50. The actuarial valuations of the different pension funds towards which the council made contributions as well as the contributions that were made to these pension funds were not disclosed in the financial statements as required by Statements of Generally Accepted Accounting Practice (GAAP) IAS 19 (AC 116) *Employee Benefits*.

51. Not all non-compliance with the MFMA or losses were disclosed in the notes to the financial statements as required in terms of section 125(2) of the MFMA. The mandatory disclosures in respect of audit fees, taxes, levies, duties, pension and medical aid contributions and contributions to organised local government were also not made as required in terms of section 125(1) of the MFMA. The nature and extent of the non-disclosure could not be quantified, as management information was not presented for audit purposes.

#### **Irregular expenditure**

52. Irregular expenditure of R31 325 050 (2008: R8 592 720) was incurred by the municipality due to a combination of the following:

- (a) The number of quotations as required by paragraph 12 of the Local Government: Municipal Supply Chain Management Regulations, 2001 (Supply Chain Regulations) was not obtained.
- (b) The payments were not approved by a delegated official as required by paragraph 11 of the Supply Chain Management Regulations.
- (c) Bids were not invited or proof that bids were invited could not be supplied for expenditure in excess of R200 000, as required by paragraph 12 of the Supply Chain Management Regulations.
- (d) Tax certificates with regard to the relevant suppliers were not obtained as required by paragraph 13 of the Supply Chain Management Regulations.
- (e) No proof that an advertisement was placed with regard to procurement in excess of R200 000 could be submitted as required by paragraph 22 of the Supply Chain Management Regulations.
- (f) Salaries and allowances paid to councillors exceeded the upper limit as set in *Government Gazette No. 1319 dated 18 December 2008* for a Grade 3 municipality by R1 062 875. This irregular expenditure was not disclosed in the financial statements as irregular expenditure as required in terms of section 125 of the MFMA. Furthermore, I could not be provided with sufficient, appropriate audit evidence that management had properly identified, investigated and recorded all irregular expenditure transactions during the year under review. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance regarding the completeness of irregular expenditure.

#### **Disclaimer of opinion**

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

#### **Other matters**

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

## Internal controls

54. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the inefficiencies in the system of internal control, which led to the disclaimer of opinion. The root causes are categorised according to the five components of an effective system of internal control. In some instances deficiencies exist in more than one internal control component.

Par. no.	Basis for disclaimer of opinion	CE	RA	CA	IC	M
5	Property, plant and equipment			4,6	1	1
6 – 9	Consumer debtors	3		3	1	1
10	Investments	3		4		
11 - 13	Cash and bank			4	1	1
14	Inventories			4	1	
15 - 17	Creditors	3		4	1	1
17 - 18	Unspent conditional grants			4	1	
19	Long-term liabilities			4		
20 – 21	Accumulated surplus			4,6		
22 - 32	Revenue	3		4	1	
33 - 39	Expenditure	3		4		1
40	Cash flow statement			4		
41	Contractual commitments	3		4	1	
42	Contingent liabilities					1
43	Financial instruments					2
44 – 51	Presentation and disclosure			4	1	
52	Irregular expenditure	3		6		1

## Overall reflections on the governance framework based on internal control deficiencies

55. Monitoring and supervision and monitoring by management to ensure that the daily financial activities are fully and correctly recorded in the records of the municipality were lacking. Management also did not ensure that adequate controls were in place to detect and correct errors in the financial records. As a result of this and a lack of oversight:

- (a) The trial balance did not balance by R2 468 671.
- (b) The amounts disclosed in the financial statements, general ledger and trial balance differed.
- (c) Documents supporting amounts disclosed in the financial statements were not available.

56. Staff and consultants were not adequately trained in financial reporting and related matters and management did not take steps to identify, prevent and correct errors in the financial records.

57. The work performed by consultants with the preparation of the financial statements was not adequately monitored and supervised.

58. The financial statements were not reviewed by the audit committee and chief financial officer before the statements were submitted to the Auditor-General.

Legend	
CE = Control environment	
The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting.	1
Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control	2

over financial reporting.	
Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel.	3
Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting.	4
The accounting officer/accounting authority does not exercise oversight responsibility over financial reporting and internal control.	5
Management's philosophy and operating style do not promote effective control over financial reporting.	6
The entity does not have individuals competent in financial reporting and related matters.	7
<b>RA = Risk assessment</b>	
Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting.	1
The entity does not identify risks to the achievement of financial reporting objectives.	2
The entity does not analyse the likelihood and impact of the risks identified.	3
The entity does not determine a risk strategy/action plan to manage identified risks.	4
The potential for material misstatement due to fraud is not considered.	5
<b>CA = Control activities</b>	
There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation.	1
General information technology controls have not been designed to maintain the integrity of the information system and the security of the data.	2
Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.	3
Actions are not taken to address risks to the achievement of financial reporting objectives.	4
Control activities are not selected and developed to mitigate risks over financial reporting.	5
Policies and procedures related to financial reporting are not established and communicated.	6
Realistic targets are not set for financial performance measures, which are in turn not linked to an effective reward system.	7
<b>IC = Information and communication</b>	
Pertinent information is not identified and captured in a form and time frame to support financial reporting.	1
Information required to implement internal control is not available to personnel to enable internal control responsibilities.	2
Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel.	3
<b>M = Monitoring</b>	
Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.	1
Neither reviews by internal audit or the audit committee nor self-assessments are evident.	2
Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.	3

## Material non-compliance with applicable legislation

### Municipal Finance Management Act, 2003

59. Section 64(3) of the MFMA states that the accounting officer of a municipality must immediately inform the National Treasury of any payments due by an organ of state to the municipality in respect of municipal tax or for municipal services, if such payments are regularly in arrears for periods of more than 30 days. Contrary to the above, no proof could be submitted by management that the National Treasury was informed of long outstanding debt, although government balances amounting to R1 091 978 were outstanding for more than 30 days.
60. In terms of section 65(2)(e) of the MFMA the accounting officer of a municipality must ensure that all money owing by the municipality is paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure. In respect of several payments with a total value of R7 516 432 (2008: R304 519) I was unable to obtain sufficient appropriate audit evidence that the payment was made within the prescribed period.



61. Section 71 of the MFMA states that the accounting officer of a municipality must by no later than 10 working days after the end of each month submit to the mayor of the municipality and the relevant provincial treasury a statement on the state of the municipality's budget. These statements were not submitted within the time frame determined by the MFMA.
62. Section 73 of the MFMA states that the accounting officer must ensure that the provincial treasury is informed, in writing, of any failures of the council to adopt or implement the budget-related policies and the supply chain management policy. No proof could be submitted that such reporting was done regarding the non-adherence to the supply chain management policy as highlighted under irregular expenditure in the qualification paragraph of this report.

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

63. 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 was not submitted for six councillors, as required by items 7(1) and 5(1)(a) of the code of conduct for councillors set out in schedule 1 of the MSA.
64. Contrary to section 57(4)(c) of the MSA, no performance objectives and targets linked to time frames were set in the annual performance agreements for the municipal manager and the managers directly accountable to him for the 2008-09 financial year.

**Matters of governance**

65. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
<b>Clear trail of supporting documentation that is easily available and provided in a timely manner</b>			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.		X
<b>Quality of financial statements and related management information</b>			
2.	The financial statements were not subject to any material amendments resulting from the audit.		X
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.		X
<b>Timeliness of financial statements and management information</b>			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines (section 126 of the MFMA).		X
<b>Availability of key officials during audit</b>			
5.	Key officials were available throughout the audit process.		X

Development of and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	<ul style="list-style-type: none"> <li>The municipality had an audit committee in operation throughout the financial year.</li> </ul>		X
	<ul style="list-style-type: none"> <li>The audit committee operates in accordance with approved, written terms of reference.</li> </ul>		X
	<ul style="list-style-type: none"> <li>The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.</li> </ul>		X
7.	Internal audit		
	<ul style="list-style-type: none"> <li>The municipality had an internal audit function in operation throughout the financial year.</li> </ul>		X
	<ul style="list-style-type: none"> <li>The internal audit function operates in terms of an approved internal audit plan.</li> </ul>		X
	<ul style="list-style-type: none"> <li>The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.</li> </ul>		X
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		X
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		X
10.	The information systems were appropriate to facilitate the preparation of the financial statements.		X
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(1)(c)(i) of the MFMA.		X
12.	Delegations of responsibility are in place, as set out in section 79 of the MFMA.		X
Follow-UP of audit findings			
13.	The prior year audit findings have been substantially addressed.		X
14.	SCOPA resolutions have been substantially implemented.		X
Issues relating to the reporting of performance information			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		X
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		X
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the department against its mandate, predetermined objectives, outputs, indicators and targets (section 68 of the MFMA).		X
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.		X

#### Overall reflections on the governance framework based on other key governance requirements

66. The lack of key governance requirements pertaining to the audit committee and internal audit is attributable to the fact that the district-based audit committee is used and no evidence could be obtained that this committee performed any work at the municipality.

67. Key governance requirements regarding risk assessment and internal control were not met since the internal audit did not function during the year under review and there were vacancies in key positions.
68. Prior year audit findings and SCOPA resolutions were not addressed due to the fact that key positions were vacant and the municipality was subject to the audit of the four years prior to the year under review.
69. Adequate monitoring and supervision by senior managers to ensure that laws and regulations were adhered to did not take place.
70. Policies and procedures regarding internal control were not implemented by management.

#### **Material inconsistencies in other information included in the annual report**

71. Chapter 6 of the municipality's annual report indicates that the municipality's MIG grants received during the year under review amounted to R11 322 727 (2008: R15 719 330). This is inconsistent with the municipality's MIG grants of R30 563 161 (2008: R14 065 000) as disclosed in note 21 to the financial statements.

#### **Unaudited supplementary schedules**

72. The supplementary information set out on pages 27 to 33 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.

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

#### **Report on performance information**

73. I have reviewed the performance information as set out on pages xxx to xxx.

#### **The accounting officer's responsibility for the performance information**

74. 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 MSA.

#### **The Auditor-General's responsibility**

75. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.
76. 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.
77. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

#### **Findings on performance information**

#### **Non-compliance with regulatory requirements**

#### **Content of integrated development plan**

78. The key performance indicator set by the municipality did not include any general key performance indicators applicable to the municipality, as prescribed in terms of section 43(1) of the MSA.

### **Existence and functioning of a performance audit committee**

79. The Mafube Local Municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee, as required by regulation 13(2) of the Municipal Planning and Performance Management Regulations, 2001.

### **Internal auditing of performance information**

80. The Mafube Local municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required in terms of section 45 of the MSA.

### **Lack of adoption or implementation of a performance management system**

81. The Mafube Local Municipality did not adopt a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required in terms of regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

### **No mid-year budget and performance assessments**

82. The accounting officer of the Mafube Local Municipality did not by 25 January 2008 assess the performance of the municipality during the first half of the year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan, as required by section 72 of the MSA.
83. No proof could be obtained that the mid-year budget and performance assessment reports as required by sections 72 and 88 of the MFMA was submitted to the mayor and treasury.
84. Performance information requirements were not met due to the fact that there were no personnel in certain key positions during the year under review to attend to the requirements and senior staff did not effectively monitor the compliance with regulatory requirements.

### **Usefulness and reliability of reported performance information**

#### **Inconsistently reported performance information**

85. The Mafube Local Municipality has not reported throughout on its performance with regard to its objectives and key performance areas as per the approved integrated development plan. Several targets set for infrastructure and the municipal office were not reported on due to the lack of staff and oversight.

#### **Reported performance information not reliable**

#### **Lack of source documents**

86. Sufficient appropriate audit evidence in relation to the reported performance information of the infrastructure and municipal office programmes could not be obtained, as relevant source documents could not be provided for audit purposes.

### **Lack of appropriate information systems generation performance information**

87. Sufficient appropriate audit evidence with regard to the reported performance information of the infrastructure and municipal office programmes could not be obtained, as the information system used to generate performance information was not appropriate to facilitate the preparation of accurate and complete actual performance information. A well-defined system of generating, collating and reviewing performance information does not exist.

### **Incomplete reporting on all predetermined objectives, indicators and targets**

88. The actual achievements with regard to all indicators and targets specified in the 2008-09 integrated development plan for the infrastructure and municipal office programmes were not reported on throughout. For several of the key performance areas identified for measurements, no actual achievements were reported and for some of the key performance areas, actual results were only reported for the first half of the financial year.
89. Service delivery and performance measurement were not adequately monitored and supervised by senior management. No oversight was performed to ensure that the systems in respect of performance information were effective and that performance information reports were reliable and complete.

### **APPRECIATION**

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

*Auditor-General*  
Bloemfontein

11 December 2009



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*