

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

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I was engaged to audit the financial statements of the Mafube Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### Basis for disclaimer of opinion

#### Receivables from exchange transactions

4. Overpayment of councillors to the amount of R2 535 840 was not disclosed as receivables in the statement of financial position. Consequently, receivables from exchange transactions is understated by R2 535 840, employee cost is overstated by R330 913 and accumulated surplus is understated by R2 204 927. In addition, I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions of R15 816 818 (2011: R43 783 398) as disclosed in note 5 to the financial statements due to the unavailability of reconciliations for the salary control accounts. The municipality's system did not allow the performance of alternative procedures. Consequently, I was unable to determine whether any adjustments were necessary to the amounts disclosed for other receivables from exchange transactions.

#### Consumer debtors

5. I was unable to obtain sufficient appropriate evidence to confirm the existence of consumer debtors with a carrying value of R98 035 197 (2011: R103 805 427) disclosed in note 6 to the financial statements in the absence of payments made after year-end. I was unable to confirm the existence of these debtors by alternative means as service contracts, indigent and arrangement applications could not be submitted. Consequently, I was unable to determine whether any adjustment relating to consumer debtors was necessary.
6. My report was modified in the prior year as the municipality had not assessed the consumer debtors, individually or by category, for any indication that these assets may be impaired. The municipality's records did not permit the application of alternative audit procedures and I was therefore unable to perform all the procedures I considered necessary to obtain adequate audit evidence as to the completeness and valuation of consumer debtors and impairment of debtors. In addition, contrary to the SA Standards of

GRAP, GRAP 1, *Presentation of Financial Statements*, details in respect of the aging of consumer debtors were not disclosed in note 6 to the financial statements to achieve fair presentation. My audit opinion on the financial statements for the period ended 30 June 2011 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

### **Cash and cash equivalents**

7. Unreconciled deposits to the amount of R3 762 995 are included in the bank reconciliation at 30 June 2012. This amount represents deposits on the bank statements that could not be traced to the accounting records of the municipality. Consequently, cash and cash equivalents disclosed in note 7 are understated by R3 762 995. I was unable to determine the adjustment required to revenue, receivables and accumulated surplus in the financial statements due to the nature and extent of the entity's transactions and records.
8. During 2011 I was unable to obtain sufficient appropriate audit evidence about cash and cash equivalents reflected as R16 669 779. I was unable to confirm the cash and cash equivalents by alternative means. Consequently, I was unable to determine whether any adjustments to this amount and accumulated surplus were necessary. My audit opinion on the financial statements for the period ended 30 June 2011 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

### **Property, plant and equipment**

9. Capital work-in-progress to the amount of R27 731 934 has been incorrectly accounted for in general expenses in the financial statements. Consequently, capital work-in-progress included in property, plant and equipment is understated and general expenses and the accumulated surplus at year-end overstated by R27 731 934, respectively. The municipality did not recognise property plant and equipment as required by SA Standards of GRAP, GRAP 17, *Property, plant and equipment* at fair value as an acceptable substitute for historical cost. In addition, I was unable to obtain sufficient appropriate audit evidence about property, plant and equipment reflected as R785 052 365 (2011: R208 542 470) as per note 8 to the financial statements, as valuations were not correctly performed for certain assets; useful lives of certain assets were incorrectly assessed; certain assets could not be physically verified; there were differences between the financial statements and asset register, and I was unable to confirm completeness of land. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amounts disclosed for property plant and equipment.

### **Investment property**

10. Contrary to the requirements of SA Standards of GRAP, GRAP 16, *Investment Property*, municipal properties that conform to the definition and recognition criteria of an investment property were not disclosed as such in the financial statements and were not included in an investment property register. Due to the lack of sufficient appropriate audit evidence, it was impracticable to determine the total extent of this understatement of investment property and overstatement of property, plant and equipment as disclosed in note 8 to the financial statements.

### **Payables from exchange transactions**

11. I was unable to obtain sufficient appropriate evidence to confirm the completeness of retention creditors disclosed as R3 372 618 in note 13 to the financial statements due to lack of proper recordkeeping regarding retention monies owed. In the absence of a retention register, I was unable to perform alternative procedures. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for retention creditors.
12. During 2011, I was unable to obtain sufficient appropriate audit evidence about payables from exchange transactions reflected as R59 443 450. I was unable to confirm trade payables by alternative means. Consequently, I was unable to determine whether any adjustments to this amount and accumulated surplus were necessary. My audit opinion on the financial statements for the period ended 30 June 2011 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

### **Value-added tax (VAT)**

13. I was unable to obtain sufficient appropriate audit evidence to confirm VAT payable disclosed as R11 371 335 (2011: R5 649 738) in note 14 to the financial statements due to an inadequate record management system. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amounts disclosed for VAT Payable.

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

14. During 2011, I was unable to obtain sufficient appropriate audit evidence about unspent conditional grants and receipts reflected as R2 200 692. I was unable to confirm the unspent conditional grants and receipts by alternative means. Consequently, I was unable to determine whether any adjustments to this amount and accumulated surplus were necessary. My audit opinion on the financial statements for the period ended 30 June 2011 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

### **Accumulated surplus**

15. Various suspense accounts included under payables and receivables to the amount of R71 265 577 were cleared to accumulated surplus during the year under review. These suspense accounts also included current year movements that were cleared to accumulated deficit. No evidence could be obtained of any reconciliation performed before the accounts were written off. In addition, I was unable to obtain sufficient appropriate audit evidence regarding asset transfers disclosed as R489 219 039 against accumulated surplus to account for the depreciated replacement cost of assets due to an unsubstantiated difference of R79 845 042 between the amount recognised in the statement of changes in net asset and note 8 to the financial statements. The municipality's system did not allow the performance of alternative procedures. Consequently, I could not practically quantify the resulting misstatement in other account balances, classes of transactions and disclosures.

### **Employee benefits**

16. Contrary to Standards of Generally Recognised Accounting Practice GRAP 3, *Accounting estimates, change in accounting estimates and errors*, the municipality did not restate the opening balance for the prior period presented for the post-retirement medical aid plan liability disclosed in note 17 as well as the current and past service cost included in employee-related cost in note 28, finance cost disclosed in note 32 and fair value adjustments disclosed in note 35 relating to 2011. The municipality's system did not allow the performance of alternative procedures. Consequently, I could not practically quantify the resulting misstatement in other account balances, classes of transactions and disclosures.

## Revenue

17. Inconsistencies were identified between the market values of properties per the valuation roll and the system on which billings were generated. Consequently, property rate income and consumer debtors are overstated in the financial statements by R3 974 411 respectively. In addition, I was unable to obtain sufficient appropriate audit evidence about property rates reflected as R19 167 186 as per note 21 to the financial statements, due to an unsubstantiated difference of R6 903 139 between the chargeable rates per the valuation roll and the accounting records. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amounts disclosed for property rates.
18. In accordance with the SA Standards of GRAP, GRAP 1, *Presentation of Financial Statements*, the financial statements should be prepared on the accrual basis. On this basis, transactions are recognised when they occur. I was unable to obtain sufficient appropriate audit evidence regarding the completeness of service charges of R67 415 830 as disclosed in note 22 to the financial statements as well as other income disclosed as R3 739 751 in note 25 to the financial statements. The municipality's system did not allow the performance of alternative procedures. Consequently, I was unable to determine whether any adjustments were necessary to the amounts disclosed for revenue.
19. During 2011, I was unable to obtain sufficient appropriate audit evidence about revenue reflected as R147 508 379. I was unable to confirm revenue by alternative means. Consequently, I was unable to determine whether any adjustments to this amount and accumulated surplus were necessary. My audit opinion on the financial statements for the period ended 30 June 2011 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

## Expenditure

20. Expenditure was identified that has been allocated inclusive of VAT to the statement of financial performance; consequently repairs and maintenance are overstated by R958 533, other expenses are overstated by R4 830 333 and VAT payable is overstated by R5 788 866. In addition I was unable to obtain sufficient appropriate audit evidence for expenses to the amount of R11 861 744 (2011: R148 991 812), as disclosed in note 34 to the financial statements. In the absence of the required supporting records, I was unable to perform alternative procedures. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for expenditure.
21. Audit fees are disclosed as R9 448 742 in note 34 to the financial statements, while the actual audit fees for the year under review amounted to R2 634 254. Consequently, I was unable to determine whether any adjustments to the amount disclosed were necessary.

## Finance cost

22. I was unable to obtain sufficient appropriate audit evidence for finance cost on trade and other payables to the amount of R5 876 970, as disclosed in note 31 to the financial statements. In the absence of the required supporting records, I was unable to perform alternative procedures. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for finance cost.

### **Employee cost**

23. During 2011, I was unable to obtain sufficient appropriate audit evidence about employee cost reflected as R56 167 507. I was unable to confirm employee cost by alternative means. Consequently, I was unable to determine whether any adjustments to this amount and accumulated surplus were necessary. My audit opinion on the financial statements for the period ended 30 June 2011 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

### **Irregular expenditure**

24. The municipality did not have adequate systems in place to detect and disclose irregular expenditure. The municipality made payments in contravention of the supply chain management (SCM) requirements which were not included in irregular expenditure, resulting in irregular expenditure being understated by R27 065 229 (2011: R11 578 437). In addition, I was unable to obtain sufficient appropriate audit evidence to confirm the completeness of irregular expenditure stated at R29 024 434 (2011: R1 469 230) in note 47 to the financial statements. I was unable to confirm the completeness of irregular expenditure by alternative means. Consequently, I was unable to determine whether any adjustments to the amount disclosed for irregular expenditure in note 47 to the financial statements for the current year and the corresponding figure were necessary.

### **Unauthorised expenditure**

25. I was unable to obtain sufficient appropriate audit evidence about unauthorised expenditure stated at R17 925 031 in note 45 to the financial statements. I was unable to confirm unauthorised expenditure by alternative means. Consequently, I was unable to determine whether any adjustment to the amount disclosed for unauthorised expenditure was necessary.

### **Commitments**

26. I was unable to obtain sufficient appropriate audit evidence to confirm the completeness of commitments to the amount of R30 936 917 as disclosed in note 37 to the financial statements, due to an inadequate record management system. I was unable to confirm the completeness of commitments by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the amounts disclosed for commitments.

### **Cash flow statement**

27. I was unable to obtain sufficient appropriate audit evidence as to whether the cash flow statement and the related notes for the current and prior financial years were fairly stated, due to the material effect of misstatements and scope limitations identified in the financial statements, as set out in this report. I was unable to confirm the cash flow by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amounts disclosed in the cash flow statement.

### **Pension and medical aid**

28. The municipality did not disclose pension and medical aid contributions as required by section 125(1)(c) of the MFMA. Due to the lack of controls, information and reconciliations, I was unable to determine the pension and medical aid contributions that should have been disclosed.

### **Disclaimer of opinion**

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

### **Emphasis of matters**

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

### **Restatement of corresponding figures**

31. As disclosed in notes 39 and 40 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered during 2011-2012 in the financial statements of the Mafube Local Municipality at, and for the year ended 30 June 2011.

### **Going concern**

32. The accounting officer's report on page xx and note 41 to the financial statements indicates that Mafube Local Municipality has been experiencing financial difficulties. These conditions, along with the other matters as set forth in the accounting officer's report and note 41, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern. The ability of the municipality to continue as a going concern is dependent on a number of factors, the most significant being that the accounting officer continues to procure funding for the ongoing operations of the municipality.

### **Material losses and impairments**

33. As disclosed in note 49 to the financial statements, material losses to the amount of R8 465 109 were incurred as a result of losses on the electricity distribution network up to February 2012 when the municipality entered into a public private partnership for the distribution of electricity.
34. As disclosed in note 6 to the financial statements, material impairments on trade and other receivables of R91 896 208 (2011: R85 771 168) were incurred as a result of irrecoverable debtors.
35. As disclosed in note 39, material losses to the amount of R21 671 551 were reported by the municipality as a result of a reversal of property rate income due to abandonment of the valuation roll implemented on 1 July 2009.

### **Additional matters**

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

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

37. The municipality did not submit a draft annual report for the financial period under review and, consequently, the consistence and accuracy of information that will be reported in the annual report could not be confirmed against the audited financial statements.

### **Unaudited supplementary schedules**

38. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

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

39. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance

with laws and regulations and internal control, but not for the purpose of expressing an opinion.

### **Predetermined objectives**

40. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages xx to xx of the annual report.
41. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

The reliability of the information in respect of the selected development objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

42. The material findings are as follows:

### **Usefulness of information**

#### **Consistency**

43. The Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) section 41(c) requires that the service delivery and budget implementation plan (SDBIP) should form the basis for the annual report, thus requiring the consistency of objectives, indicators and targets between planning and reporting documents. All of the selected reported objectives were not consistent with the objectives as per the approved SDBIP. This is due to the lack of a municipal performance management framework and policy for the financial period under review.

#### **Measurability**

44. The National Treasury *Framework for managing programme performance information* (FMPPI) requires that performance targets be specific in clearly identifying the nature and required level of performance. All of the targets relevant to objectives relating to access to basic electricity and sanitation were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.
45. The National Treasury FMPPI requires that performance targets be measurable. The required performance could not be measured for all of the targets relevant to objectives relating to access to basic electricity and sanitation. This was due to the fact that management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.

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

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

#### **Budgets**

47. The municipality incurred expenditure in excess of the limits of the amounts provided for in the votes in the approved budget, in contravention of section 15 of the MFMA.

48. Quarterly reports were not submitted to the council on the implementation of the budget and financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.
49. The 2011-12 adjustment budget was not approved by the council as required by municipal budget and reporting regulation 25.
50. Revisions to the service delivery and budget implementation plan were not approved by the council after the approval of the adjustments budget, as required by section 54(1)(c) of the MFMA.
51. Sufficient appropriate audit evidence could not be obtained that monthly budget statements were submitted to the mayor and the relevant provincial treasury, as required by section 71(1) of the MFMA.
52. The accounting officer did not assess the municipality's performance for the first half of the financial year, as required by section 72(1) and 72(1)(a)(ii) of the MFMA.

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

53. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records provided, but the uncorrected material misstatements or supporting records that could not be provided resulted in the financial statements receiving a disclaimer audit opinion.
54. The 2010-11 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.
55. A written explanation was not submitted to council setting out the reasons for the delay in the tabling of the 2010-11 annual report in the council, as required by section 127(3) of the MFMA.
56. The accounting officer did not make the 2010-11 annual report public immediately after the annual report was tabled in the council, as required by section 127(5)(a) of the MFMA.
57. The municipal council did not adopt an oversight report, containing comments on the annual report, within two months from the date on which the 2010-11 annual report was tabled, as required by section 129(1) of the MFMA.
58. The accounting officer did not make public the council's oversight report on the 2010-11 annual report within seven days of its adoption, as required by section 129(3) of the MFMA.

#### **Audit committees**

59. The audit committee did not advise the council, accounting officer and management staff on matters relating to internal financial control and internal audits, risk management, accounting policies, effective governance, performance management and performance evaluation as required by section 166(2)(a) of the MFMA.
60. The audit committee did not advise the council, political office bearers, accounting officer and the management staff on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.
61. The audit committee did not advise the council, political office bearers, accounting officer and the management staff on matters relating to compliance with the MFMA, DoRA and other applicable legislation, as required by section 166(2)(a)(vii) of the MFMA.
62. The audit committee did not respond to the council on the issues raised in the audit reports of the Auditor-General, as required by section 166(2)(c) of the MFMA.



63. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.
64. The audit committee was not constituted, as required by section 166(4)(a) of the MFMA as the audit committee did not consist of at least 3 members for the entire year under review.
65. A performance audit committee was not in place and the audit committee established in terms of MFMA section 166(1) was not used for this function, as required by municipal planning and performance management (MPPM) regulation 14(2)(a).

#### **Internal audit**

66. An internal audit unit was not established for the majority of the year, as required by section 165(1) of the MFMA.
67. The internal audit unit did not function as required by section 165(2) of the MFMA, in that:
  - it did not prepare a risk-based audit plan and an internal audit programme for the financial year under review.
  - it did not report to the audit committee on the implementation of the internal audit plan.
  - it did not advise the accounting officer and report to the audit committee on matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management and loss control.
68. The internal audit unit did not report to the audit committee on matters relating to compliance with the MFMA, DoRA and other applicable legislation, as required by section 165(2)(b) of the MFMA.
69. The internal audit did not audit the results of performance measurements, as required by section 45(1)(a) of the MSA and MPPM regulation 14(1)(a).
70. The internal audit unit did not assess the functionality of the performance management system as required by MPPM regulation 14(1)(b)(i).
71. The internal audit unit did not audit the performance measurements on a continuous basis and submitted quarterly reports on their audits to the municipal manager and the performance audit committee, as required by MPPM regulation 14(1)(c).

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

72. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) and (c).
73. Bid adjudication was not always done by committees which were composed in accordance with SCM regulation 29(2).
74. The prospective providers list for procuring goods and services through quotations was not updated at least quarterly to include new suppliers that qualify for listing, and prospective providers were not invited to apply for such listing at least once a year as per the requirements of SCM regulation 14(1)(a)(ii) and 14(2).
75. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by means of inviting competitive bids or that deviations approved by the accounting officer were only if it was impractical to invite competitive bids, as required by SCM regulations 19(a) and 36(1).
76. Sufficient appropriate audit evidence could not be obtained that bid specifications for procurement of goods and services through competitive bids were drafted in an unbiased manner that allowed all potential suppliers to offer their goods or services, as per required by SCM regulation 27(2)(a).

77. Sufficient appropriate audit evidence could not be obtained that contract and quotations were only awarded to providers whose tax matters have been declared by the South African Revenue Service to be in order as required by SCM regulation 43.
78. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded only to bidders who submitted a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
79. The prospective providers list for procuring goods and services through quotations was not updated at least quarterly to include new suppliers that qualify for listing, and prospective providers were not invited to apply for such listing at least once a year as per the requirements of SCM regulation 14(1)(a)(ii) and 14(2).
80. The preference point system was not applied in the procurement of goods and services above R30 000 as per the requirements of section 2(a) of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) and SCM regulation 28(1)(a).
81. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days, as required by SCM regulation 22(1) and 22(2).

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

82. Sufficient appropriate audit evidence could not be obtained that the municipality appointed managers directly accountable to municipal managers who had not been dismissed in the past 10 years for financial misconduct, as required by section 57A of the MSA.
83. Job descriptions were not established for all posts in which appointments were made in the current year, in contravention of section 66(1)(b) of the MSA.
84. The competencies of financial and supply chain management officials were not assessed promptly in order to identify and address gaps in competency levels as required by regulation 13 of the MRMCL.
85. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury, as required by regulation 14(2)(a) of the MRMCL.

#### **Expenditure management**

86. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
87. Payments were made without the approval of the accounting officer or a properly authorised official as required by section 11(1) of the MFMA.
88. An effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, was not in place as required by section 65(2)(a) of the MFMA.
89. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred and accounted for creditors, as required by section 65(2)(b) of the MFMA.
90. The accounting officer did not take reasonable steps to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
91. Unauthorised, irregular and fruitless and wasteful expenditure was not investigated and as a result it was not recovered from the liable person, as required by section 32(2) of the MFMA.

#### **Revenue management**

92. An adequate management, accounting and information system was not in place which recognised revenue when it was earned, accounted for debtors and accounted for receipts of revenue, as required by section 64(2)(e) of the MFMA.
93. Revenue received was not always reconciled on a weekly basis, as required by section 64(2)(h) of the MFMA.

#### **Conditional grants received**

94. The municipality did not table a three year capital budget as part of its 2010-11 financial year's budget, as required by the *Division of revenue grant framework*, as published in *Government Gazette No. 34280 of 20 May 2011*.
95. The municipality did not timeously submit project registration forms, for projects it intended implementing in the financial year under review, to the provincial department of local government, as required by the *Division of revenue grant framework*.
96. The municipality did not submit project implementation plans to the national department (Cooperative Governance and Traditional Affairs) (CoGTA), as required by the *Division of revenue grant framework*.
97. The municipality did not submit MFMA implementation plans to the National Treasury to address weaknesses in financial management, as required by the *Division of revenue grant framework*.
98. The municipality did not submit its signed activity plan and in the prescribed format to the CoGTA, as required by the *Division of revenue grant framework*.
99. The municipality did not submit, within 20 days after the end of each month, its monthly expenditure reports to CoGTA, as required by the *Division of revenue grant framework*.
100. The municipality did not submit quarterly performance reports to the transferring national officer, the relevant provincial treasury and the National Treasury, within 30 days after the end of each quarter, as required by section 12(2)(c) of DoRA.
101. The municipality did not evaluate its performance in respect of programmes funded by the allocation and submit the evaluation to the transferring national officer within two months after the end of the financial year, as required by section 12(6) of DoRA.

#### **Asset management**

102. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
103. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.
104. The council did not approve the investment policy of the municipality, as required by municipal investment regulation 3(1)(a).
105. The required reports describing the investment portfolio of the municipality was not submitted to the mayor at the end of each month, as required by municipal investment regulation 9(1).

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

106. We were unable to confirm whether the municipal council adopted an integrated development plan (IDP), as required by section 25 of the MSA.
107. The municipal council did not consult with the local community in the drafting and implementation of the municipality's IDP, by means of a municipal wide structure for community participation or through a forum that enhances community participation, as required by section 28 of the MSA and MPPM 15(1)(a)(i).
108. The municipality did not afford the local community at least 21 days to comment on the final draft of its IDP before the plan was submitted to council for adoption, as required by regulation 15(3) of the MPPM.

109. The municipal council did not review its IDP annually in accordance with an assessment of its performance measurements in terms of section 41 and to the extent that changing circumstances demanded, as required by section 34 of the MSA and MPPM regulation.
110. The municipality did not establish a performance management system, as required by section 38(a) of the MSA.
111. The municipality did not establish mechanisms to monitor and review its performance management system, as required by section 40 of the MSA.
112. The municipality did not:
  - set appropriate key performance indicators as a yardstick for measuring performance, including outcomes and impact, with regard to the municipality's development priorities and objectives set out in its integrated development plan
  - set measurable performance targets with regard to each development priority and objective
  - monitor performance, with regard to each of those development priorities and objectives and against the key performance indicators and targets set
  - measure and review performance at least once per year, with regard to each of those development priorities and objectives and against the key performance indicators and targets set as required by section 41 of the MSA.

#### **Financial misconduct**

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

#### **Environmental management**

114. The municipality operated their waste disposal sites) without a waste management license or permit, in contravention of section 20(b) of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008) and section 20(1) of the Environmental Conservation Act, 1989 (Act No. 73 of 1989).

#### **Internal control**

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

#### **Leadership**

116. The oversight responsibility regarding financial and performance reporting and compliance and related internal controls was not effectively implemented by management as it was not monitored on a continuous basis during the year and staff were not held accountable.
117. The action plans to address internal control deficiencies were not developed and monitored in such a manner to ensure that it addresses all issues and is effectively implemented. Poor performance was also not effectively managed.
118. The IT governance framework that supports and enables the business, delivers value and improves performance were not established and implemented by management.

#### **Financial and performance management**

119. Proper record keeping was not implemented in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
120. The accounting officer did not regularly review and monitor management's compliance with laws, regulations and internally designed policies and procedures. Action taken by

management was not done timely to prevent non-compliance issues during the period under review. As a result, significant non-compliance issues were noted that could have been prevented.

### **Governance**

121. Appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored were not implemented due to a lack of resources.
122. Although the municipality has an internal audit division, it is not adequate for the purposes of the audit as it did not function as intended during the year under review as the internal auditor was only appointed in April 2012.
123. The audit committee did not function effectively throughout the year as the internal auditor was only appointed in April 2012.

*Auditor-general*

Bloemfontein

30 November 2012



**AUDITOR - GENERAL  
SOUTH AFRICA**

*Auditing to build public confidence*