

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Ngwathe Local Municipality, which comprise the statement of financial position as at 30 June 2011, and 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 information, and the accounting officer's report, as set out on pages XX to XX.

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 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 for such internal control as management determines 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. As required by section 188 of the Constitution of South Africa (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa (Act No. 25 of 2004) (PAA) section 126(3) of the MFMA, my responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. 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

Other financial assets

4. As a result of the audit matters detailed below, I was unable to obtain sufficient appropriate audit evidence to confirm the existence, completeness, valuation of and rights to total other financial assets amounting to R8 899 426 as reported in note 4 to the financial statements. Consequently, I could not confirm the existence, completeness, valuation of and rights to other financial assets of R8 899 426.
 - (a) The SA Standards of Generally Recognised Accounting Practice, GRAP 1, *Presentation of Financial Statements* requires that the financial statements to present fairly the financial performance of an entity. An investment of R8 000 000 became due on 30 June 2011 and was offset against a loan by the finance institution. The municipality did not record this transaction in their financial records. Consequently, other financial assets held to maturity as per note 4 and other financial liabilities as per note 11 to the financial statements are overstated by R8 000 000.
 - (b) International accounting standards 39 (IAS), *financial instruments*, requires investments to be fairly valued on an annual basis. The municipality did not fairly value investments (other assets) as per note 4 to the financial statements. Financial assets are consequently understated by R1 100 180 and the fair value gain (other income) is understated by the same amount.

- (c) IAS 39 requires investments to be fairly valued on an annual basis. The municipality did not account for adjustments in the fair value of investments (other assets) as per note 4 to the financial statements during the 2009-10 year and consequently other financial assets and the accumulated surplus is overstated by R926 205.
- (d) The municipality could not provide me with an investment register indicating all investments held with external parties. Consequently, I could not confirm the completeness and valuation of investments (other financial assets) amounting to R8 899 426 as per note 4 to the financial statements. The municipality's records did not permit the application of alternative procedures regarding the valuation and completeness of other financial assets.
- (e) International financial reporting standards 7 (IFRS), *financial instruments*, require the disclosure of encumbered assets. The fact that other financial assets of R48 665 (2010: R6 956 918) as per note 4 to the financial statements were given as collateral, was omitted from the disclosures to other financial assets.

Inventories

- 5. The municipality could not provide sufficient appropriate audit evidence to support the reconciling items of R748 968 between the detailed inventory list and the inventory as per note 6 to the financial statements. Due to the lack of controls over additions I could not confirm the completeness of the general ledger or the inventory list. The municipality's records did not permit the application of alternative audit procedures regarding inventories. Consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself as to the completeness and valuation of inventory of R15 445 (2010: R835 912) as per note 6 to the financial statements.

Trade and other receivables from exchange transactions

- 6. The municipality could not provide sufficient appropriate audit evidence to support the suspense accounts with debit balances of R70 005 856 (2010: R32 449 930) included in trade and other receivables from exchange transactions disclosed in note 7 to the financial statements. The municipality's records did not permit the application of alternative audit procedures and, accordingly, I could not confirm the existence, completeness and valuation of trade and other receivables from exchange transactions amounting to R70 005 856 (2010:R32 449 930).

VAT receivable

- 7. As a result of the audit matters detailed below, I was unable to obtain sufficient appropriate audit evidence to confirm the existence, completeness and valuation of and rights to VAT receivable of R20 111 898 (2010: R13 600 262) as per note 8 to the financial statements. The municipality's records did not permit the application of alternative audit procedures regarding VAT. Consequently, I did not confirm the existence, completeness and valuation of VAT.
- (a) The municipality was unable to provide me with a reconciliation of the VAT account to confirm the existence and valuation of VAT receivable of R20 111 898 (2010: R13 600 262).
 - (b) Suspense accounts with debit balances of R5 498 419 (2010: 2 364 716) and credit balances of R28 619 483 (2010: R29 811 248) have been included in VAT receivable as per note 8 to the financial statements. I was unable to obtain sufficient, appropriate audit evidence to audit the valuation and classification of these amounts.

- (c) Unknown deposits amounting to R21 165 519 (2010: R21 311 319) have been included in trade and other payables from exchange transactions as per note 7 to the financial statements. The VAT implications of these unallocated deposits are uncertain and had not been considered. Consequently, the completeness and valuation of VAT could not be audited.
- (d) Sufficient, appropriate audit evidence for the VAT treatment of bad debts written off, amounting to R18 959 264 (2009: R3 800 944), as per note 25 to the financial statements could not be obtained. Consequently, the valuation and completeness of VAT receivable could not be audited.
- (e) I was unable to audit the accounting for VAT amounting to R12 120 690 on purchased services as the municipality could not provide me with sufficient, appropriate audit evidence to confirm adherence to the VAT Act.
- (f) My report was modified in the prior year as I was unable to obtain sufficient appropriate audit evidence that VAT reimbursements of R8 292 533 (2009: R11 139 988) by the South African Revenue Service (SARS) during the prior year were appropriately recorded in the accounting records of the municipality.
- (g) My report was modified in the prior year as I was unable to obtain sufficient appropriate audit evidence for debit journals of R952 501 and credit journals of R7 160 348. I was unable to test the completeness, accuracy and validity of the journals processed against VAT accounts.
- (h) My report was modified in the prior year as input VAT claimed of R2 237 869 was disallowed by SARS. Management has not accounted for the disallowed VAT accordingly. Consequently, VAT receivable was overstated by R2 237 869.

Consumer debtors

- 8. As a result of the audit matters detailed below, I was unable to obtain sufficient appropriate audit evidence to confirm the existence, completeness and valuation of consumer debtors, before any impairment adjustments, amounting to R237 924 111 (2010: R216 806 855) as disclosed in note 9 to the financial statements. Management raised a general provision of R177 620 363 (2010: R177 620 363) for impairment against these consumer debtors. In view of the following, I could not confirm the completeness, existence and accuracy of consumer debtors with a carrying value of R60 303 750 (2010: R39 186 493). The municipality's records did not permit the application of alternative audit procedures regarding consumer debtors and bad debts written off. Consequently, I could not confirm the completeness, existence and accuracy of consumer debtors.
 - (a) The municipality was unable to provide me with a detailed list of debtors or balances which substantiate the carrying value of R60 303 750 (2010:R39 186 493) as per note 9 to the financial statements. Consequently, the valuation, existence and completeness of debtors could not be confirmed.
 - (b) The municipality was unable to provide me with a detailed list to verify the bad debts written off of R18 959 264 (2010: R132 346 875) and detailed calculations to substantiate the provision for bad debts of R177 620 361 (2010: R177 620 361). Consequently, the valuation and completeness of the bad debts written off as per note 25 and the provision for bad debts as per note 9 could not be confirmed.
 - (c) Included in the consumer debtors is an amount of R30 085 031, the recovery of which is doubtful, based on the past payment history of the specific debtor. An impairment loss has not been recognised in accordance with IAS 39, *financial instruments*. Had an impairment loss been recognised, consumer debtors would have been stated at R30 218 719, and the surplus for the year and accumulated surplus would have been reduced by R30 085 031.

- (d) An unexplained difference of R8 541 484 (2010:R5 332 568) was identified between the consumer debtors balance as per note 9 to the financial statements and the debtors age analysis. Sufficient appropriate audit evidence could not be obtained for this difference. The valuation of consumer debtors could consequently not be confirmed.
- (e) I could not obtain sufficient appropriate audit evidence to confirm that the indigent debtors registered on the municipality's system had been approved and that the debtors had complied with the minimum requirements prescribed to qualify for the monthly subsidies. Consequently, the occurrence and valuation of indigent subsidies of R13 753 327 (2010: R14 096 417) as disclosed in note 21 to the financial statements, could not be confirmed.
- (f) Sufficient appropriate audit evidence to confirm the existence and valuation of debtors with credit balances amounting to R8 471 655 could not be obtained.
- (g) GRAP 1 requires the separate disclosure of receivables from non-exchange activities, which include income receivable from taxes and transfers. Revenue from property rates is regarded as non-exchange revenue as per paragraph 1.14 of the municipality's accounting policy. Property rates receivable amounting to R63 657 500 (2010: R49 687 481) were, however, included under receivables from exchange activities as per note 9 of the financial statements. Consumer receivables from non-exchange transactions were consequently understated and consumer receivables from exchange transactions were overstated by this amount.
- (h) GRAP 1 requires the disclosure of information about the key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date which holds a significant risk of requiring a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The significant doubtful debts provision would warrant such a disclosure. Contrary to the minimum disclosure requirements, the municipality omitted the disclosure of these items.
- (i) IFRS 7, *financial instruments*, requires the disclosure of information on liquidity risk, maturity analysis, sensitivity analysis and credit risk exposure relating to financial instruments. Contrary to the minimum disclosure requirements, the maturity analysis on consumer debtors was inaccurate as disclosed in note 9 to the financial statements. The liquidity risk, credit risk and sensitivity analysis were not disclosed in the financial statements.
- (j) My report was modified in the prior year as I was unable to obtain sufficient appropriate audit evidence for debit journals of R18 146 318 and credit journals of R140 119 669. I was unable to test the completeness, accuracy and validity of the journals processed against trade and other receivables.

Cash and cash equivalents

- 9. As a result of the audit matters detailed below, I was unable to obtain sufficient appropriate audit evidence to confirm the existence, completeness, valuation and allocation of rights pertaining to cash and cash equivalents amounting to R3 098 949 (2010: overdraft of R23 711 308) as per note 10 to the financial statements. The municipality's records did not permit the application of alternative audit procedures regarding the existence, completeness, valuation and allocation of rights pertaining cash and cash equivalents.
- (a) The municipality could not provide sufficient appropriate audit evidence to support debit reconciling items totalling R1 773 934 (2010: R1 103 050) and credit reconciling items of R1 759 582 (2010: R1 550 428) between cash and cash equivalents as per note 10 to the financial statements and the bank statement balance as recorded on the year-end bank reconciliation. Consequently, I could not audit the existence, completeness, valuation and allocation of the rights pertaining to cash and cash equivalents.

- (b) GRAP 1 requires financial statements to fairly present the financial position, financial performance and cash flows of the municipality. However, the bank reconciliation includes unreleased electronic fund transfers (EFT) of R6 518 164 (2010: R28 354 260) which were only released for payment after year-end. Consequently, cash and cash equivalents were understated by R6 532 516 (2010: overstated by R28 354 260) and trade and other payables from exchange transactions as per note 7 were understated by the same amount.

Property, plant and equipment

10. As a result of the audit matters detailed below, I was unable to obtain sufficient appropriate audit evidence to confirm the existence, completeness, valuation of and rights pertaining to property, plant and equipment amounting to R587 074 580 (2010: R580 878 678) as disclosed in note 3 to the financial statements. The municipality's records did not permit the performance of reasonable alternative audit procedures regarding the existence, completeness and valuation of and rights pertaining to property, plant and equipment.
- (a) I was unable to verify the existence, completeness, valuations and rights pertaining to property, plant and equipment amounting to R587 074 580 (2010: R580 878 678), disposals of property plant and equipment amounting to R2 368 006, additions amounting to R8 563 908 (2010: R58 380 598), accumulated depreciation amounting to R33 679 924 (2010: R33 679 924) and depreciation for the current financial year. The municipality imposed a limitation of scope on the audit as the asset register was not provided for audit purposes.
- (b) The SA Standards of Generally Recognised Accounting Practice, GRAP 16, *Investment Property*, requires that management identify and disclose investment property separately in the financial statements. The municipality did not perform an evaluation in terms of GRAP 16 to determine which properties should be disclosed as investment properties. Consequently, the completeness and valuation of investment property could not be audited.
- (c) I was unable to obtain a list of capital projects started or completed during the year with approved cost and expenditure incurred up to 30 June 2011. The completeness and valuation of capital projects could consequently not be confirmed.
- (d) SA Standards of Generally Recognised Accounting Practice .GRAP 17, *Property, plant and equipment*, requires the disclosure of the useful lives or depreciation rates used, the policy on depreciation of leased assets and the opening balance of accumulated depreciation and cost for the previous year. The municipality, however, omitted the above disclosures in the financial statements.
- (e) GRAP 17 requires the disclosure of capital commitments to the notes of the financial statements. The municipality, however, did not disclose any capital commitments in the notes to the financial statements. In the absence of financial records and contracts in respect of capital commitments, I was unable to audit the completeness and valuation of capital commitments.

Trade and other payables from exchange transactions

11. As a result of the audit matters detailed below, I was unable to obtain sufficient appropriate audit evidence to verify the existence, completeness and valuation of payables from exchange transactions amounting to R81 792 253 (2010: R73 365 628) as disclosed in note 14 to the financial statements. The municipality's records did not permit the application of alternative audit procedures regarding the existence, completeness and valuation of trade and other payables from exchange transactions.

- (a) A difference amounting to R6 644 272 was identified between trade and other payables as reported in note 14 to the financial statements and the detailed creditors list. Sufficient appropriate audit evidence could not be obtained to clarify this difference. Consequently, the completeness, valuation and classification of trade payables from exchange transactions amounting to R6 644 272 could not be confirmed.
- (b) Suspense accounts with credit balances of R46 324 748 and debit balances of R34 482 324 are included in trade and other payables. These suspense accounts were not cleared at year-end, as required by section 65(2)(j) of the MFMA. I was unable to obtain sufficient appropriate evidence to support the transactions and balances included in these suspense accounts. The completeness, valuation and classification of these transactions could consequently not be confirmed.
- (c) A leave pay provision of R6 490 173 (2010: 6 490 173) is included in trade and other payables from exchange transactions. However, management could not provide me with an accurate supporting leave pay calculation. Consequently, I could not verify the completeness and valuation of the leave pay provision.
- (d) The municipality could not provide me with creditors reconciliations for creditors balances amounting to R44 098 142 included in the detailed creditors list. The valuation, completeness and existence of these trade and other payables could consequently not be confirmed.
- (e) The municipality could not provide me with supporting documentation for payments made subsequent to year-end amounting to R12 255 272. The existence of these creditors could consequently not be confirmed.
- (f) The municipality did not record invoices in respect of goods and services received amounting to R93 002 283 (2010: R109 547 044). Of this R22 422 837 (2010: R65 623 668) related to goods and services received during the current year, and R70 579 446 (2010: R43 923 376) related to prior years. Accordingly, payables from exchange transactions were understated by R93 002 283 (2010:R109 547 044), current expenses were understated by R22 422 837 (2010: R65 623 668) and the opening balance of accumulated surplus was overstated by R70 579 446 (2010:R43 923 376).
- (g) My report was modified in the prior year as I was unable to obtain sufficient appropriate audit evidence for debit journals of R184 391 344 and credit journals of R122 766 345. I was unable to confirm the completeness, accuracy and validity of the journals processed against trade and other creditors. Consequently, I could not verify the existence, completeness and valuation of trade and other creditors.

Consumer deposits

- 12. Management was unable to provide me with a list of outstanding deposits as at 30 June 2011. Consequently, I could not obtain sufficient appropriate audit evidence to audit the existence, completeness, and valuation of consumer deposits of R3 583 682 (2010: R3 491 922), as disclosed in note 15 to the financial statements. The municipality's records did not permit alternative audit procedures and I was therefore unable to confirm the existence, completeness and valuation of consumer deposits.

Unspent conditional grants and receipts

- 13. As a result of the findings detailed below, I was unable to obtain sufficient appropriate audit evidence to confirm the existence, completeness and valuation of unspent conditional grants and receipts of R64 815 049 (2010: R18 174 723) as per note 13 to the financial statements and the completeness of revenue from grants as per note 19 to the financial statements. The municipality's records did not permit the application of alternative audit procedures relating to the existence, completeness, valuation of unspent conditional grants and receipts and the completeness of revenue from grants.

- (a) Management could not provide me with a list or a schedule of grants (conditional and unconditional) indicating the grant allocated versus grants received and the purpose of the grants received. I could consequently not confirm the accuracy and completeness of grants received or the correct utilisation of conditional grants and the possible effect thereof on unspent conditional grants balance.
- (b) No list or schedule could be obtained per grant indicating the opening unspent balance of the prior period, additional amount received, amount spent and the closing unspent conditional grant balance. Consequently, I could not audit the valuation and completeness of unspent conditional grants and receipts amounting to R64 815 049 (2010: 18 174 723).
- (c) Management was unable to provide me with reasons why all grants received amounting to R46 640 326 during the year under review were reported and disclosed as unspent at 30 June 2011. Consequently, I could not confirm the completeness of revenue from grants.
- (d) Note 13 to the financial statements indicate that all unspent conditional grants are invested in a ring-fenced investment until utilised. No sufficient appropriate audit evidence could be obtained to substantiate this fact. Cash and cash equivalents include an amount of R5 977 541 relating to unspent grants. Consequently, I could not confirm that all unspent conditional grants are invested in ring-fenced investments.
- (e) My report was modified in the prior year on the basis that unspent conditional grants disclosed in note 13 to the financial statements, included an amount of R4 798 612, received from Public Works for services rendered by the municipality. The amount should have been recognised as revenue. Had the services rendered been recorded as revenue, revenue would have increased and the deficit for the year ended 30 June 2010 and unspent conditional grants would have decreased by R4 798 612. I was unable to obtain sufficient appropriate audit evidence to verify that the opening balance of unspent conditional grants was restated to account for the above.

Other financial liabilities

- 14. I was unable to obtain sufficient appropriate audit evidence to confirm the completeness of other financial liabilities amounting to R22 608 159 as per note 11 to the financial statements. The municipality's records did not permit the application of alternative audit procedures relating to other financial liabilities. Consequently, I could not confirm the completeness of other financial liabilities.
- 15. GRAP 1 requires financial statements to fairly present the financial position, financial performance and cash flows of the municipality. The short-term portion of long-term liabilities was not reclassified to current liabilities. Consequently, non-current liabilities were overstated by R13 965 319 and current liabilities were understated by R13 965 319.

Finance lease liabilities and operating leases

- 16. I was unable to obtain all the lease agreements requested during the audit. In the absence of the lease agreements I was unable to obtain sufficient appropriate audit evidence as to the completeness of the operating lease expenses of R7 641 987 (2010: R4 530 401), disclosed under various captions in notes 21, 28, 30 and 31 to the financial statements, and the financial lease liability amounting to R1 148 623 (2010: R1 148 623) as disclosed in the statement of financial position.

I was unable to verify the adherence to the recognition, measurement and disclosure requirements as prescribed by SA Standards of Generally Recognised Accounting Practice, GRAP 13, *Leases*. The municipality's records did not permit the application of alternative audit procedures regarding finance and operating leases. Consequently, I could not confirm the completeness, valuation and accuracy of operating lease expenses, the financial lease liability and financial costs relating to financial leases, as reported in notes 21, 28, 30 and to the financial statements.

Accumulated surplus

17. As a result of the matters described in the basis for disclaimer of opinion paragraphs, I cannot conclude on the completeness, valuation and existence of accumulated surplus as disclosed in the statement of financial position.
18. Due to the disclaimer of opinion on the prior year's financial statements and the findings listed below, I could not obtain sufficient appropriate audit evidence to ensure the existence, completeness and valuation of accumulated surplus amounting to R575 510 448. The municipality's records did not permit the application of alternative audit procedures regarding the valuation and completeness of accumulated surplus.

- (a) Sufficient appropriate evidence could not be obtained to verify that prior year misstatements had been corrected, nor had the scope limitations imposed during prior years been resolved. Consequently, I was unable to obtain sufficient appropriate audit evidence regarding the existence, valuation and completeness of accumulated surplus amounting to R575 510 448 and the corresponding disclosure of R529 167 944 as disclosed in the statement of financial position.

The municipality did not process adjustments made to the general ledger during the 2009-10 financial year. Consequently, the accumulated surplus was overstated by R3 688 805, trade and other payables from exchange transactions were overstated by R2 442 905 and understated by R3 885 038, respectively, trade and other receivables from exchange transactions were overstated by R531 838 and understated by R493 182, respectively, investments were overstated by R945 442, and property, plant and equipment were overstated by R1 412 574 and understated by R150 000, respectively.

- (b) GRAP 1 requires the disclosure of the nature, amount of and the reasons for the reclassification of comparative disclosures. The municipality omitted the required disclosure for the following items:
 - An amount of R6 884 645 was reclassified in the comparative figures from appropriations for the year to the opening balance of accumulated surplus as at 1 July 2009. I was also unable to obtain any documentation to substantiate the R6 884 645 disclosed as appropriations in the prior period. Consequently, I could not verify the existence, completeness and valuation of accumulated surplus.
 - The corresponding amount for deferred income was adjusted from R24 810 323 to Rnil in the 30 June 2010 financial statements. The amount was allocated to the accumulated surplus. I was also unable to obtain any documentation to substantiate the R24 810 323 originally disclosed as deferred income in the prior year. Consequently, I could not verify the existence, completeness and valuation of accumulated surplus.
- (c) My report was modified in the prior year as I was unable to obtain sufficient appropriate evidence for debit journals amounting to R2 489 609 and credit journals of R73 684. I was unable to confirm the completeness, accuracy and validity of the journals processed against the accumulated surplus account.

Accruals, provisions and contingent liabilities

19. SA Standards of Generally Recognised Accounting Practice, GRAP 19, *Provisions, contingent liabilities and contingent assets*, require the recognition and disclosure of present obligations due to past events. The municipality has a present obligation to remediate the water pollution of the Vaal River System and rehabilitation of municipal landfill sites. No provision was recorded in the financial statements as per requirements of GRAP 19. I was unable to quantify the amount for the provisions stated above and consequently, provisions and expenditure were understated by an unknown amount.
20. GRAP 19 requires the recognition and disclosure of present obligations due to past events. However, there was pending litigation and legal actions amounting to R33 934 341 (2010: R31 793 253) instituted against the municipality. Sufficient, appropriate audit evidence could not be obtained that the municipality evaluated these legal actions to determine whether they should be disclosed as contingent liabilities or provided for in accordance with GRAP 19. In the absence of this evaluation and supporting documentation, I was unable to quantify the extent of the understatement of accruals, provisions and contingent liabilities.

Post-retirement medical aid or pension obligation

21. IAS 19, *employee benefits*, requires that a liability should be recognised when an employee has provided service in exchange for employee benefits to be paid in the future. However, the municipality did not recognise and disclose post-retirement medical aid or pension obligation as per requirement of IAS 19. In the absence of post-retirement medical aid contracts and actuarial valuations I was unable to quantify the extent of the understatement. Post-retirement medical aid and pension obligation are thus understated by an unknown amount.

Related parties

22. IPSAS 20, *Related-party disclosures*, requires the disclosure of related-party transactions and balances. As a result of the audit matters detailed below, I was unable to obtain sufficient appropriate audit evidence to confirm the existence, valuation and completeness of related-party disclosures. The municipality's records did not permit the application of alternative audit procedures regarding the existence, valuation and completeness of related-party transactions.
 - (a) A register of declaration of interest could not be obtained.
 - (b) A list of related parties identified by management could not be provided for audit purposes.
 - (c) Suppliers and payroll master file data could not be obtained to perform computer assisted audit procedures.

Revenue

23. As a result of the findings detailed below, I was unable to obtain sufficient appropriate audit evidence to confirm the completeness, occurrence, classification, cut-off and accuracy of revenue amounting to R210 408 126 (2010: R167 258 504) as included in the statement of financial performance. The municipality's records did not permit the application of alternative audit procedures related to the completeness, existence and accuracy of revenue.
 - (a) I was unable to obtain sufficient appropriate audit evidence to confirm the debit journals of R35 454 159 (2010: R5 774 289) and credit journals of R44 955 511 (2010: R54 788 744). Consequently, I was unable to confirm the completeness, accuracy and validity of the journals processed against revenue and consumer debtors accounts.

- (b) A total of 1 558 meters (2010: 722 meters) measuring water and electricity consumption in the municipal area have not been read for more than six months. Furthermore, 7 695 instances were noted where the accounting system has not recorded any interim averages on which estimated consumption of water and electricity is based. Consequently, I could not confirm the accuracy and completeness of service charges amounting to R135 580 585 (2010: R126 747 917)
- (c) Management did not estimate the unmetered consumption as at 30 June 2011. Due to the above deficiencies, I was unable to quantify the understatement of service revenue and consumer debtors.
- (d) Reasons for material variances between the units of water and electricity sold by the municipality and the units purchased according to statements from the Department of Water Affairs and Forestry, Rand Water and Eskom, could not be determined. The completeness and accuracy of service income amounting to R135 580 585 could consequently not be confirmed.
- (e) Water sales of R22 503 108 (2010: R30 552 623) is included in the statement of financial performance. No valid explanation could be obtained in respect of monthly fluctuations of up to R130 009 877 (2010:R1 096 247 607) levied when compared to the average water sales recorded. Consequently, I could not verify the completeness, accuracy and occurrence of water sales.
- (f) Electricity sales from metered consumption of R42 794 318 (2010:R37 980 003) are included in the statement of financial performance. No valid explanations could be obtained for monthly fluctuations of up to R38 174 109 (2010: R26 521 501) levied when compared to the average electricity sales recorded. Consequently, I could not verify the completeness, accuracy and occurrence of electricity sales.
- (g) Refuse charges of R21 606 959 are included in the statement of financial performance. No valid explanation could be obtained in respect of monthly fluctuations of up to R1 800 580 levied when compared to the average refuse charges recorded. Consequently, I could not verify the completeness, accuracy and occurrence of refuse charges.
- (h) Sewerage and sanitation charges of R24 419 250 are included in the statement of financial performance. No valid explanation could be obtained for monthly fluctuations of up to R2 039 892 levied when compared to the average sewerage and sanitation charges recorded. Consequently, I could not verify the completeness, accuracy and occurrence of sewerage and sanitation charges.
- (i) SA Standards of Generally Recognised Accounting Practice , GRAP 9, *Revenue from Exchange Transactions*, requires that revenue from the sale of goods should be recognised when the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods. However, the municipality recognised revenue from prepaid electricity of R38 628 672 (2010: R32 620 510) in full on the date of sale of prepaid electricity and not when the electricity was used by the consumer, as required by GRAP 9. As a result, a portion of the sale of prepaid electricity revenue has been incorrectly recognised as revenue, instead of deferred income. Due to the volume of transactions involved and the fact that the system could not provide me with the relevant information, I could not quantify the extent by which revenue is overstated and deferred income is understated in the financial statements.
- (j) Management does not perform a monthly reconciliation between the electricity sold per prepaid electricity system and the prepaid electricity sales recorded in the general ledger. The completeness, occurrence and accuracy of prepaid electricity amounting to R38 628 672 could consequently not be confirmed.
- (k) Management was unable to reconcile a difference of R1 071 626 between the amount recorded in the trial balance for prepaid electricity and the amount per the monthly billing

reports. The completeness, occurrence and accuracy of prepaid electricity amounting to R38 628 672 could consequently not be confirmed.

- (l) Revenue from property rates of R65 151 660 (2010: R54 832 745) is recognised in note 17 to the financial statements. A total of 236 properties (2010: 165) on the valuation roll had no values allocated to them and I was unable to determine the extent of the understatement of property rates revenue.
- (m) I have recalculated the revenue that should have been collected from property rates, based on all properties and the values allocated to them in the evaluation register, a difference of R1 004 283 (2010: understatement of R6 570 000) was identified between this calculation and the revenue as disclosed in the financial statements. Revenue from property rates are thus overstated and consumer debtors overstated by R1 004 283.
- (n) Management does not regularly perform reconciliations between the master valuation roll and the valuation amounts loaded onto the accounting system that is used to base property rate charges on. Consequently, I could not confirm the accuracy and completeness of property rates as per note 17 to the financial statements.
- (o) Monthly reconciliations between the available monthly billing reports and the actual revenue recorded in the general ledgers could not be provided. Consequently, I could not confirm the accurate and complete recording of revenue.
- (p) I was unable to obtain sufficient appropriate audit evidence to confirm the interest earned on long-outstanding consumer debtors amounting to R13 233 021 (2010 R12 954 888) as disclosed in note 26 to the financial statements. As a result, I was unable to confirm the occurrence and accuracy of interest charged on trade and other receivables.
- (q) The municipality could not provide supporting documentation for differences identified in other income amounting to R705 938 (2010:R1 778 501) as disclosed in note 20 to the financial statements. Consequently, I was unable to confirm the occurrence and accuracy of these transactions included under other income.
- (r) The municipality was unable to provide a detailed list and sufficient appropriate supporting documentation of rental income amounting to R1 509 243. Consequently, I could not confirm the accuracy, occurrence and completeness of rental income amounting to R1 509 243.
- (s) GRAP1 requires the financial statements to present fairly the financial performance of an entity. Discounts relating to property rates amounting to R14 371 722 (2010:R18 589 477) included in note 18 to the financial statements had been set off against revenue from service charges. Consequently, revenue from property rates is overstated and service charges are understated by R14 371 722 (2010:R18 589 477).
- (t) My report was modified in the prior year as rental income of R1 707 561 was incorrectly included under debtors with credit balances in the statement of financial position. Consequently, rent income was understated and debtors with credit balances were overstated by R1 707 561. Consequently, I could not verify the occurrence of rental income in the current year.

Personnel expenditure

- 24. As a result of the audit matters detailed below I was unable to obtain sufficient appropriate audit evidence to confirm the occurrence, completeness and accuracy of the personnel expenditure amounting to R117 402 388 (2010: R101 597 365) as included in notes 23 and 24 to the financial statements. The municipality's records did not permit the application of alternative audit procedures regarding occurrence, completeness and accuracy.

- (a) A difference amounting to R4 223 320 (2010: R2 765 793) was identified between the financial statements and the municipality's payroll records. The municipality could not provide explanations or supporting documentation for the identified difference. The accuracy, completeness and occurrence of personnel expenditure as per notes 23 and 24 could not be confirmed.
- (b) The municipality made manual payroll payments, the total of which could not be determined. I was unable to obtain a list of all manual payments made to employees of the municipality. Consequently, I could not confirm the accuracy, occurrence and completeness of manual payroll payments.
- (c) Sufficient appropriate supporting documentation could not be provided for other allowances amounting to R2 086 041 (2010:R2 913 670) included in note 23 to the financial statements. Consequently, I could not confirm the occurrence, completeness and accuracy of allowances.
- (d) Sufficient appropriate supporting documentation for car allowances amounting to R4 499 832 (2010:R4 412 216) included in note 23 to the financial statements could not be obtained. Consequently, I could not confirm the occurrence, completeness and accuracy of car allowances.
- (e) Remuneration of key management personnel have not been disclosed as required by section 124 of the MFMA.

Finance costs

- 25. GRAP 1 requires that the financial statements fairly present the financial performance of an entity. Finance costs amounting to R322 857 (2010: R3 336 907) were disclosed in the statement of financial performance and note 28 to the financial statements. I have identified finance costs on other financial liabilities amounting to R7 936 698 which have not been recognised. An amount of R3 984 160 relates to the current year and R3 952 538 relates to the prior year. Consequently, finance costs were understated by R3 984 160, accumulated surplus was overstated by R3 952 538 and other financial liabilities were understated by R7 936 698.

Bulk purchases

- 26. GRAP 1 requires that the financial statements fairly present the financial performance of an entity. As a result of the audit matters detailed below I was unable to obtain sufficient appropriate audit evidence to confirm the occurrence, completeness and accuracy of bulk purchases amounting to R90 254 355 (2010: R34 112 662) as disclosed in note 32 to the financial statements.
 - (a) The municipality accounted for bulk purchases when the actual payment was made and not when the service was delivered as required by GRAP 1. The municipality's records did not permit the application of alternative audit procedures regarding the occurrence, completeness and accuracy of bulk purchases. Consequently, I could not confirm the occurrence, completeness and accuracy of bulk purchases amounting to R90 254 355 (2010: R34 112 662) as per note 32 of the financial statements.
 - (b) Bulk purchases amounting to R12 174 033 are not included under bulk purchases as per note 32 to the financial statements. Bulk purchases and trade and other payables as per note 14 to the financial statements are consequently understated by this amount.
 - (c) Interest on overdue bulk purchases amounting to R4 490 119 is included under bulk purchases disclosed in note 32 to the financial statements. As a result, interest paid was understated and bulk purchases were overstated by this amount.

General expenses

27. As a result of the audit matters detailed below, I was unable to obtain sufficient appropriate audit evidence to confirm the occurrence, completeness and accuracy of general expenses amounting to R45 695 478 (2010:R73 256 527) as disclosed in note 21 to the financial statements. The municipality's records did not permit the application of alternative audit procedures regarding the occurrence, completeness and accuracy of general expenses.
- (a) Supporting documentation could not be obtained in respect of travel and subsistence allowances of R1 057 976 (2010:R1 456 112) included under general expenditure in note 21 of the financial statements.
- (b) The following differences were identified from general expenses amounting to R20 966 737 as disclosed in note 21 to the financial statements:
- Supporting documentation could not be obtained for expenses amounting to R3 077 613. Consequently, I could not confirm the occurrence, completeness and accuracy of general expenses.
 - GRAP 1 requires that the financial statements should present fairly the financial performance of an entity. Expenses amounting to R2 732 956 were recorded in the incorrect accounting period. Consequently, expenditure was overstated by R2 732 956.
- (c) Rental expenses of R6 158 219 are included under general expenses in note 21 to the financial statements.
- Supporting documentation could not be obtained for expenses amounting to R238 244. Consequently, I could not confirm the occurrence, completeness and accuracy of general expenses,
 - GRAP 1 requires that the financial statements should present fairly the financial performance of an entity. Expenses amounting to R1 603 718 were recorded in the incorrect period. Consequently, expenditure was overstated by R1 603 718.
- (d) Management could not provide sufficient appropriate audit evidence to confirm that the following prior year findings reported in the audit report had been followed up and resolved:
- Fuel and oil expenses of R3 907 584 are included under general expenditure in note 21 to the financial statements. Supporting documentation for fuel and oil expenses of R2 664 168 could not be obtained.
 - Consulting and professional fees of R6 665 593 are included under general expenditure in note 21 to the financial statements. Supporting documentation for expenses of R1 557 713 could not be obtained.
 - Lease rentals of R2 826 389 and contracted services of R1 997 971 are included under general expenditure in the financial statements. Supporting documentation for expenses of R3 251 677 could not be obtained.
 - Other expenditure of R6 719 805 is included in general expenditure in note 21 to the financial statements. Supporting documentation for expenses of R2 094 613 could not be provided.
 - Grant expenditure of R16 388 822 is included under note 21 to the financial statements. Supporting documentation for grant expenses amounting to R10 511 731 could not be provided.
 - Consulting and professional fees of R 2 496 570 were recorded in the incorrect period, resulting in consulting and professional fees and opening accumulated surplus being overstated by R2 496 570.

- I was unable to obtain sufficient appropriate audit evidence for debit journals of R6 115 468 and credit journals of R690 000. I was unable to test the completeness, accuracy and validity of the journals processed against general expenditure.
- (f) GRAP 1 requires that the financial statements should present fairly the financial performance of an entity. Departmental expenses of R2 223 518 (2010: R2 578 076) are included in general expenditure in note 21 to the financial statements. Departmental expenses and the corresponding departmental income should net off to a nil balance. Consequently, general expenses and departmental income were overstated by R2 223 518 (2010: R2 578 076). Due to the lack of audit evidence I could not determine the effect thereof on the other account balances or classes of transactions reported in the financial statements.

Repairs and maintenance expenditure

28. As a result of the audit matters detailed below, I was unable to obtain sufficient appropriate audit evidence to confirm the occurrence, completeness and accuracy of repairs and maintenance expenditure amounting to R17 101 544 (2010: R15 042 897) as disclosed in the statement of financial performance. The municipality's records did not permit the application of alternative audit procedures regarding the occurrence, completeness and accuracy of repairs and maintenance expenditure.
- (a) Supporting documentation could not be obtained for expenses amounting to R410 320, consequently I could not confirm the occurrence, completeness and accuracy of repairs and maintenance expenditure.
- (b) GRAP 1 requires that the financial statements should present fairly the financial performance of an entity. Expenses amounting to R7 144 649 were recorded in the incorrect period, resulting in repairs and maintenance expenditure and opening accumulated surplus being overstated by R7 144 649.
- (c) Supporting documentation of R6 587 834 could not be obtained for credit entries recorded against expenditure. Consequently, I could not verify the occurrence, accuracy and completeness of repairs and maintenance expenditure.

Government grants and subsidies

29. GRAP 1 requires the disclosure of the nature and amount of and the reasons for the reclassification of comparatives where comparative figures is restated.

The corresponding amount for grants and subsidies indicated as having been received from the department of housing was adjusted from R4 231 842 to R6 416 683 in the 30 June 2011 financial statements. Contrary to the requirements of GRAP 1, the municipality omitted the disclosure of the prescribed items.

Cash flow statement

30. As a result of the matters described in the basis for disclaimer of opinion paragraphs, I cannot conclude on the accuracy and completeness of the cash flow statement.

Unauthorised, fruitless and wasteful and irregular expenditure

31. I was unable to obtain sufficient appropriate audit evidence to confirm the completeness, occurrence and accuracy of irregular expenditure amounting to Rnil (2010: R1 320 460) as disclosed in note 37 to the financial statements. The municipality's records did not permit the application of alternative audit procedures regarding the occurrence, accuracy and completeness of irregular expenditure.

32. Section 111 of the MFMA requires the municipality to implement and maintain an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective. Supporting documents for payments amounting to R10 908 862 (2010: R2 583 370) (2009: R22 591 377) could not be provided for audit purposes. Compliance with the supply chain management policy and Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) could consequently not be evaluated. I was thus unable to confirm the completeness, accuracy and occurrence of irregular expenditure.
33. Irregular expenditure amounting to R605 132 identified during the audit was not disclosed in note 37 to the financial statements. Irregular expenditure was thus understated by this amount.
34. Irregular expenditure amounting to R177 993 in respect of the misuse of municipal garage cards during 2010 was not disclosed in the financial statements. Irregular expenditure amounting to R1 391 254 in respect of the misuse of municipal garage cards during 2009 was incorrectly disclosed as fruitless and wasteful expenditure.
35. My report was modified in the prior year as irregular expenditure incurred due to non-compliance with the supply chain management policy amounting to R2 274 693 (2009: R2 412 464) was not disclosed in the financial statements.
36. Section 1 of the MFMA defines fruitless expenditure as expenditure that was made in vain and would have been avoided had reasonable care been exercised. Section 125(2)(d) of the MFMA requires the disclosure of fruitless expenditure in the financial statements of municipalities. Fruitless and wasteful expenditure amounting to R7 340 717 (2010: R17 227 632) (2009: R145 056) was identified during the audit. These expenditures related to interest and penalties paid and payment for meter readers. Fruitless and wasteful expenditure is consequently understated by this amount.
37. The municipality incurred fruitless and wasteful expenditure in the prior year as a result of duplicate annual bonus payments amounting to R86 (2009: R3 363), excessive overtime payments amounting to R12 902 (2009: R1 927) and payments made to a deceased employee amounting to R16 957. I could thus not confirm the completeness of fruitless and wasteful expenditure disclosed in the financial statements.
38. Due to a lack of sufficient appropriate documentation as per the basis of disclaimer paragraphs, I was unable to determine if budgeted expenditure had been exceeded on votes during the year under review. I could thus not confirm the occurrence, accuracy and completeness of unauthorised expenditure.
39. My report was modified in the prior year as contrary to sections 1, 15 and 32 of the MFMA, budgeted expenditure of R79 748 882 was exceeded on certain votes by R168 885 987 (2009: 22 429 579) and was not disclosed in the financial statements as unauthorised expenditure, as required by section 125(2)(d) of the MFMA. I could thus not confirm the completeness of unauthorised expenditure disclosed in the financial statements.

Going concern

40. As a result of the matters described in the basis for disclaimer of opinion paragraphs, the municipality may be in a worse financial position than the position reflected in these financial statements. The difficulties being experienced by the municipality in recovering its consumer debtors, the potential negative effect of this tendency on the cash flows of the municipality and the inability to settle accounts receivable within an acceptable period indicate that there is a risk that the municipality may be exposed to serious financial difficulties in terms of section 138 of the MFMA.

The financial statements did not disclose any details of the uncertainty as per note 36 to the financial statements and have been prepared on a going concern basis. The municipality's accounting records do not provide sufficient appropriate audit evidence that the municipality is able to continue as a going concern.

Disclaimer of opinion

Because of the significance of the matters described in the Basis for disclaimer of opinion paragraph, 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 the financial statements.

Additional matters

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

41. In accordance with the PAA and in terms of *General Notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

42. I was unable to conduct the audit of performance against predetermined objectives as the municipality did not submit the annual performance report as required by section 46 of the MSA and section 121(3)(c) of the MFMA.

Compliance with laws and regulations

Strategic planning and performance management

43. The municipality did not implement a framework that describes and represents how the municipality's cycles and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, as required by sections 38, 39, 40 and 41 of the Municipal Systems Act and Municipal Planning and Performance Management Regulations 7 and 8.
44. The accounting officer did not assess the municipality's actual service delivery performance for the first half of the financial year against the service delivery targets and performance indicators set in the service delivery and budget implementation plan, by 25 January 2011 as required by section 72(1)(a)(ii) of the MFMA.
45. The accounting officer did not submit the results of the assessment on the performance of the municipality during the first half of the financial year to the mayor of the municipality, the National Treasury, and the provincial treasury, as required by section 72(1)(b) of the MFMA.
46. The municipal council did not, within a prescribed period after the start of its elected term, adopt a single, inclusive and strategic plan for the development of the municipality which forms the policy framework and general basis on which annual budgets must be based as required by section 53(1)(c)(ii) of the MFMA, section 25 of the MSA and MFMA Circular 13.
47. The municipal council's annual review of the IDP was not effective as the IDP was not updated with changes in circumstances resulting from the budgetary process. The annual review of the IDP did not include a performance evaluation of the actual objectives achieved in order to identify areas of underperformance and ensure appropriate key performance indicators and objectives are set as required by sections 29, 34, 36 and 41 of the MSA.

48. The accounting officer did not submit a service delivery and budget implementation plan as defined in section 1 of the MFMA for the year to the mayor as required by section 69(3) of the MFMA.
49. The general key performance indicators, as announced by the MEC for Local Government, have not been integrated into the IDP, and a review process has not been implemented for key performance areas, as required by section 43 and regulations 10 and 11 of the MSA.

Budgets

50. The accounting officer did not submit the approved annual and adjusted budget to the relevant provincial treasury, within 10 working days after council approval of the budget as required by sections 24(3) and 28(7) of the MFMA and Municipal budget and reporting regulation 18(1) and 27(1) (GNR 393 of 17 April 2009).
51. The accounting officer did not submit the monthly budget statements to the mayor and the relevant provincial treasury, as required by section 71(1) of the Municipal Finance Management Act.
52. Unforeseeable and unavoidable expenditure not provided for in the annual budget was incurred but was not appropriated for in the adjustment budget, as required by section 29(2)(d) of the Municipal Finance Management Act.
53. Management did not comply with the requirements for the shifting of funds between multi-year appropriations for capital projects as set out in section 31 of the MFMA.
54. Management were unable to provide me with a signed copy of the approved budget for the year 2010-11, the municipality did not comply with section 16 and 24 of the MFMA.
55. The accounting officer did not perform a mid-year budget and performance assessment as required by section 72 of the MFMA.

Annual financial statements, performance and annual reports

56. 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 identified by the auditors were not adequately corrected, which resulted in the financial statements receiving a disclaimer audit opinion.
57. The municipality did not disclose in the notes to the financial statements the following information:
 - (a) Intergovernmental and other allocations as required by section 123 of the MFMA.
 - (b) Amount of audit fees, pension and medical aid contributions outstanding at the end of the financial year as required by section 125(1)(c) of the MFMA.
 - (c) Details of each bank account held by the municipality during the financial year as required by section 125(2)(a) of the MFMA.
 - (d) Particulars of non-compliance with the MFMA as required by section 125(2)(e) of the MFMA.
 - (e) Disclosures concerning salaries, allowances and benefits of councillors, directors and officials as required by section 124 of the MFMA.
 - (f) Unauthorised and fruitless and wasteful expenditure has not been disclosed in the annual financial statements as required by section 125(2)(c) of the MFMA.
 - (g) A comparison of budgeted and actual amounts as additional budget columns in the primary financial statements as required by The SA Standards of Generally Recognised Accounting Practice, GRAP 24, *Presentation of Budget Information in Financial Statements* .

58. The mayor did not table in the council the 2009-10 annual report of the municipality, within seven months after the end of the financial year as required by section 127(2) of the MFMA.
59. Contrary to the requirements of section 74(1) of the MFMA, the accounting officer did not submit the annual reports for the years ending 2009-10 and 2010-11 for audit purposes.

Audit committees

60. No audit committee was in place as required by section 166(1) of the MFMA.
61. The 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 Municipal Planning and Performance Management Regulation 14.

Internal audit

62. The implementation of the internal audit plan and effectiveness of the internal audit unit was not evaluated as required by section 165(2)(b) of the MFMA.
63. The accounting officer, senior management and other officials of the municipality did not respond to risks and findings communicated by the internal audit department. Consequently, they did not comply with sections 62 and 78 of the MFMA.

Procurement and contract management

64. The municipality did not implement an SCM policy as required by section 111 of the MFMA.
65. The accounting officer did not take all reasonable steps to ensure that all money owing by the municipality is paid within 30 days of receiving the relevant invoice as required by section 65(2)(e) of the MFMA.
66. Contrary to the requirements of section 41(2) of the Municipal Supply Chain Regulations I could not obtain a risk register or other documentary proof that risk assessment relating to the SCM system were performed.
67. Contrary to the requirements of regulation 14 of the Municipal Supply Chain Regulations the accounting officer did not keep a list of accredited prospective providers of goods and services.
68. Evidence could not be obtained that the required supply chain management reports had been compiled and reviewed by management to ensure compliance with regulation 6(1), (3) and (4) of the Municipal Supply Chain Management Regulations.
69. Supporting documentation could not be obtained for contracts which have future budgetary implications, therefore the municipality did not comply with sections 33(1) and 33(2) of the MFMA.
70. No evidence could be obtained that the written report on the monthly awards made by the chief financial officer, a senior manager or a bid adjudication committee was submitted to the accounting officer as required by regulation 5(4) of the Municipal Supply Chain Management regulations.
71. I was unable to determine if invoices amounting R3 795 535 were deliberately split in contravention of section 12(3)(a) of the supply chain management regulations, as no contracts or bid documentation could be provided for these invoices. The services and goods relating to these invoices were procured from the same suppliers.

Human resources management and compensation

72. Senior managers directly accountable to the municipal manager did not sign annual performance agreements for the year under review, as required by sections 57(1)(b) and 57(2)(a) of the Municipal Systems Act.

73. The municipal manager did not sign an annual performance agreement for the year under review, as required by sections 57(1)(b) and 57(2)(a) of the Municipal Systems Act.
74. The municipality did not implement a process to regularly evaluate the approved staff establishment and ensure that all staff have updated and relevant job descriptions as required by sections 66(1)(b) and (d) of the MSA.

Expenditure management

75. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds as required by section 65(2) of the MFMA.
76. Various withdrawals were made from the municipal bank account, which did not comply with the requirements of section 11(1) of the MFMA.
77. The accounting officer did not take all reasonable steps to prevent, identify and report unauthorised, irregular, fruitless and wasteful expenditure and other losses, as required by section 62(1)(d) and 32 of the MFMA.
78. Contrary to the requirements of MFMA circular no. 55 of 7 March 2011, credit cards, linked to the municipal bank account were issued to the mayor, the Speaker and the municipal manager.

Transfer of funds and conditional grants

79. The municipality did not always submit quarterly reports to the transferring national officer on non-financial performance in respect of the allocation received for all grants received as required by section 11(2)(c) of the Division of Revenue Act.
80. The accounting officer did not evaluate the performance of the municipality in respect of programmes funded or partially funded by a schedule 4 allocation within two months after the end of the financial year as required by section 11(6) of the Division of Revenue Act.
81. Contrary to the requirements of section 71(5) of the MFMA the municipality did not submit the required statements indicating actual expenditure against grants allocated to the relevant national or provincial organ of state which transferred allocations to the municipality.

Revenue management

82. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which recognised revenue when it is earned, accounted for all debtors and receipts of revenue, as required by section 64(2)(e) of the MFMA.
83. A credit control and debt collection policy was not adopted as required by section 96(b) of the Municipal Systems Act.
84. The municipal council did not adopt by-laws to give effect to the municipality's credit control and debt collection policy as well as their tariff or rate policy as required by sections 98 and 75 of the MSA.
85. The municipality's credit and debt collections policy did not provide realistic targets consistent with collection ratios as required by section 97(1)(d) of the MSA.

Asset management

86. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system and internal controls which account for the assets of the municipality as required by section 63(2)(a) and (c) of the Municipal Finance Management Act.
87. The municipality did not comply with the requirements for the disposal of capital assets as required by section 14 of the MFMA and the municipal asset transfer regulations no. 5, 8 and 24 (GNR 878 of 22 Aug 2008).

Financial misconduct

88. The municipality did not investigate all identified possible fraudulent activities, unauthorised, irregular, fruitless and wasteful expenditure and take disciplinary action against the relevant staff members as required by section 171(4)(b) of the MFMA.

INTERNAL CONTROL

89. In accordance with the PAA and in terms of *General Notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

90. The leadership did not provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the municipality.
91. The leadership did not exercise its oversight responsibility regarding financial and performance reporting and compliance and related internal controls.
92. The leadership did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.
93. The leadership did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities.
94. The leadership did not develop and monitor the implementation of action plans to address internal control deficiencies.
95. The leadership did not establish an IT governance framework that supports and enables the business, delivers value and improves performance.

Financial and performance management

96. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
97. Management did not implement controls over daily and monthly processing and reconciling of transactions.

98. Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
99. Management did not review and monitor compliance with applicable laws and regulations.
100. Management did not design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

Governance

101. Management did not implement 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
102. Management did not ensure that there is an adequately functioning internal audit unit that identifies internal control deficiencies and recommends corrective action effectively.
103. Management did not ensure that the audit committee promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

Bloemfontein

22 November 2011



AUDITOR - GENERAL
SOUTH AFRICA

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