

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the financial statements of the Ngwathe Local Municipality set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2014, the statements of financial performance, changes in net assets, cash flows and comparison of budget and actual amounts for the year then ended, as well as 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, 2013 (Act No. 2 of 2013) (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

Property, plant and equipment

4. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment, as the municipality did not provide me with a complete and updated fixed asset register, documentation to support the cost prices/valuations of assets and evidence that all the requirements outlined in with SA Standards of GRAP, GRAP 17, *Property, plant and equipment* were complied with. I was unable to confirm the property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustment relating to property, plant and equipment stated at R1 094 612 165 (2013: R1 135 041 595) in note 11 to the financial statements was necessary.

Payables from exchange transactions

5. The municipality did not recognise all outstanding amounts meeting the definition of a liability in accordance with SA Standards of GRAP, GRAP 1, *Presentation of financial statements* (GRAP 1). As the municipality did not maintain adequate records of outstanding payments for goods and services received but not yet paid at year-end, I was not able to determine the full extent of the payables from exchange transactions not recognised as it was impracticable to do so. In addition, I was unable to obtain sufficient appropriate audit evidence regarding payables from exchange transactions as the municipality was unable to provide me with detailed listings of accrued leave pay,

unallocated receipts and trade payables and supporting documentation for journals. Consequently, I was unable to determine whether any adjustment to the payables from exchange-transactions stated at R341 458 462 (2013: R260 091 984) in note 13 to the financial statements was necessary.

Service charges

6. I was unable to obtain sufficient appropriate audit evidence that all electricity and water service charges were accounted for on the billing system for the current and previous financial years. In addition, support for the accuracy of meter readings relating to electricity and water in the current and previous financial years could also not be obtained. I was unable to confirm service charges income by alternative means. Consequently, I was unable to determine whether any adjustment relating to service charges stated at R315 960 954 (2013: R256 157 344) in note 21 to the financial statements was necessary.

Consumer receivables from exchange transactions

7. The municipality did not assess its consumer receivables from exchange transactions for impairment as required by SA Standards of GRAP, GRAP 104, *Financial instruments*. I was unable to determine the correct value of consumer receivables from exchange transactions as it was impracticable to do so. In addition, I was unable to obtain sufficient appropriate audit evidence regarding consumer receivables from exchange transactions, as the municipality was not able to provide me with indigent applications and proof of subsequent payments by debtors. Furthermore, I was unable to confirm bad debts disclosed of R43 330 759 as the municipality was not able to provide me with a council resolution supporting the write-off. I was unable to confirm consumer receivables from exchange transactions and bad debts by alternative means. Consequently, I was unable to determine whether any adjustments relating to consumer receivables from exchange transactions and bad debts stated at R236 493 169 (2013: R140 450 950) and R43 330 759 in note 8 and note 33 to the financial statements respectively, were necessary.

Receivables from non-exchange transactions

8. The municipality did not assess its receivables from non-exchange transactions for impairment, as required by GRAP 104. I was unable to determine the correct value of consumer receivables from non-exchange transactions as it was impracticable to do so. In addition, I was unable to obtain sufficient appropriate audit evidence regarding receivables from non-exchange transactions, as the municipality was not able to provide me with proof of subsequent payments by debtors and supporting documentation for journals relating to the prior year. I was unable to confirm receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment relating to receivables from non-exchange transactions stated at R89 572 868 (2013: R65 557 568) in note 7 to the financial statements was necessary.

Accumulated surplus

9. I was unable to obtain sufficient appropriate audit evidence for accumulated surplus as discrepancies were identified between the financial statements and the underlying accounting records. I was unable to confirm the accumulated surplus by alternative means. Consequently, I was unable to determine whether any adjustment to accumulated surplus stated at R1 169 674 105 (2013: R1 234 906 084) in the financial statements was necessary.

Unauthorised expenditure

10. The municipality did not include particulars of unauthorised expenditure in the notes to the financial statements as required by section 125(2)(d)(i) of the MFMA. The municipality overspent on its approved budget, resulting in unauthorised expenditure of R89 244 872 (2013: R187 185 223). In addition, I was unable to obtain sufficient appropriate audit evidence that all instances of unauthorised expenditure were accounted for, as the municipality did not provide me with a breakdown of the surplus/deficit per vote and the relevant supporting documentation. I was unable to confirm unauthorised expenditure by alternative means. Consequently, I was unable to determine the full extent of the understatement for the current and corresponding financial years.

General expenses

11. The municipality did not record general expense transactions in the correct financial year and against the correct expense type as required by GRAP 1. Consequently, general expenses were overstated by R15 863 742 (2013: R9 756 452) and accumulated surplus was overstated by R15 863 742 (2013: R2 325 204). Furthermore, interest of R26 980 082 was incorrectly recognised under bulk purchases. Subsequently, bulk purchases were overstated by R26 980 082 and interest paid was understated by R26 980 082.
During the previous financial year, repairs and maintenance were understated by R7 920 985 and contracted services were overstated by R489 737. In addition, I was unable to obtain sufficient appropriate audit evidence regarding general expenses as the municipality could not submit all the relevant tender documents. I could not confirm general expenses by alternative means. Consequently, I was unable to determine whether any further adjustment to general expenses stated at R128 816 156 (2013: R164 575 396) in note 33 to the financial statements was necessary.

Employee-related cost

12. I was unable to obtain sufficient appropriate audit evidence regarding employee-related cost for the previous financial year due to unexplained differences between the financial system, the financial statements and the salary system. I was unable to confirm employee-related cost by alternative means. Consequently, I was unable to determine whether any adjustment relating to employee related cost stated at R177 184 026 in note 26 to the financial statements was necessary. My audit opinion on the financial statements for the period ended 30 June 2013 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.

Investment property

13. The municipality did not assess the fair value of investment property, as required by SA Standard of GRAP, GRAP 16, *Investment property*, due to adequate controls not being implemented to perform the fair value evaluation. I was not able to determine the correct value of investment property as it was impracticable to do so. In addition, I was unable to obtain sufficient appropriate audit evidence regarding investment property, as the municipality did not provide me with a complete and updated investment property register and support for valuations and classifications as investment property. I was unable to confirm investment property by alternative means. Consequently, I was unable to determine whether any adjustment relating to investment property stated at R152 718 000 (2013: R152 718 000) in note 10 to the financial statements was necessary.

Bulk purchases

14. During the previous financial year, the municipality did not recognise expenses in the correct financial year as required by GRAP 1. Consequently, bulk purchases were overstated by R31 847 145, property, plant and equipment were understated by R1 117 900 and accumulated surplus was overstated by R30 729 245. In addition, I was unable to obtain sufficient appropriate audit evidence regarding bulk purchases as the municipality could not provide me with the relevant payment vouchers and invoices. I could not confirm these expenses by alternative means. Consequently, I was unable to determine whether any further adjustment to bulk purchases stated at R128 865 523 in note 31 to the financial statements was necessary. My audit opinion on the financial statements for the period ended 30 June 2013 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.

Unspent conditional grants

15. I was unable to obtain sufficient appropriate audit evidence for unspent conditional grants, as discrepancies were identified between the financial statements and the underlying accounting records. I was unable to confirm the unspent conditional grants by alternative means. Consequently, I was unable to determine whether any adjustment to unspent conditional grants stated at R105 686 274 in note 16 to the financial statements was necessary.

Depreciation and amortisation

16. I was unable to obtain sufficient appropriate audit evidence regarding depreciation and amortisation due to the limitation placed on my audit of property, plant and equipment. I was unable to confirm depreciation and amortisation by alternative means. Consequently, I was unable to determine whether any adjustment relating to depreciation and amortisation stated at R101 495 200 (2013: R97 194 922) in note 29 to the financial statements was necessary.

Fruitless and wasteful expenditure

17. The municipality did not include particulars of fruitless and wasteful expenditure in the notes to the financial statements as required by section 125(2)(d)(i) of the MFMA. The municipality paid interest on late payments, resulting in fruitless and wasteful expenditure being understated by R27 788 901. I was unable to confirm the fruitless and wasteful expenditure by alternative means. Consequently, I was unable to determine whether any further adjustment to irregular expenditure stated at R76 094 715 in note 44 to the financial statements was necessary.

Retirement benefit obligation

18. I was unable to obtain sufficient appropriate audit evidence for retirement benefit obligations as discrepancies were identified between the financial statements and the underlying accounting records. I was unable to confirm the retirement benefit obligations by alternative means. Consequently, I was unable to determine whether any adjustment relating to retirement benefit obligations of R57 813 000 in note 15 to the financial statements was necessary.

VAT receivable

19. The municipality did not maintain adequate records to account for VAT. Furthermore, I was unable to obtain sufficient appropriate audit evidence for VAT receivable as discrepancies were identified between the financial statements and the underlying accounting records. I was unable to confirm the VAT receivable by alternative means.

Consequently, I was unable to determine whether any adjustment to the VAT receivable stated at R38 571 940 (2013: R6 406 867) in note 9 to the financial statements was necessary.

Impairment loss

20. The municipality did not assess items of property, plant and equipment for impairment indicators as required by SA Standards of GRAP, GRAP 21, *Impairment of non-cash-generating assets* and SA Standards of GRAP, GRAP 26, *Impairment of cash-generating assets*. The municipality also did not subject its receivables to an impairment review as required by GRAP 104. As the municipality did not maintain an adequate asset register and records regarding receivables, I was unable to determine the full extent of the understatement of impairment loss in note 8 to the financial statements as it was impracticable to do so.

Irregular expenditure

21. The municipality did not include particulars of irregular expenditure in the notes to the financial statements as required by section 125(2)(d)(i) of the MFMA. The municipality incurred expenditure in contravention of the municipal supply chain management (SCM) regulations, resulting in irregular expenditure being understated by R71 017 377 (2013: R8 802 976). I was unable to confirm the irregular expenditure by alternative means. Consequently, I was unable to determine whether any further adjustment to irregular expenditure stated at R20 827 059 (2013: R15 417 665) in note 41 to the financial statements was necessary.

Commitments

22. I was unable to obtain sufficient appropriate audit evidence regarding commitments due to an inadequate contract management system and an incomplete contract register. I was unable to confirm commitments by alternative means. Consequently, I was unable to determine whether any adjustment relating to capital commitments stated at R0 (2013: R40 872 092) in note 37 to the financial statements was necessary.

Finance cost

23. During 2013, the municipality did not correctly classify finance cost in accordance with GRAP 1. Consequently, finance cost as disclosed in note 30 was understated by R31 116 832, bulk purchases as disclosed in note 31 were overstated by R17 979 711, general expenses as disclosed in note 33 were overstated by R12 849 376, contracted services as disclosed in note 32 were overstated by R255 342, employee-related cost as disclosed in note 26 was overstated by R32 403 and the corresponding accumulated surplus was overstated by R3 894 310. My audit opinion on the financial statements for the period ended 30 June 2013 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.

Prior period errors

24. The municipality did not disclose all the details of the adjustments made relating to prior period errors in the notes to the financial statements, as required by SA Standards of GRAP, GRAP 3, *Accounting policies, changes in accounting estimates and errors*. I was unable to obtain sufficient appropriate audit evidence regarding the nature of the prior period adjustments made. I was unable to confirm the full extent and the nature of the misstatement by alternative means. Consequently, I was unable to determine whether any adjustments to prior period error note to be disclosed in the financial statements were necessary.

Cash flow statement

25. I was unable to obtain sufficient appropriate audit evidence regarding the cash flow statement due to the limitations placed on my audit in various components of the financial statements. In addition, management was unable to provide explanations for differences between my calculations and amounts disclosed in the cash flow statement. I was unable to confirm the cash flow statement by alternative means. Consequently, I was unable to determine whether any adjustment relating to the cash flow statement in the financial statements was necessary.

Budget information

26. The municipality did not disclose all the details of the budgeted information in the notes to the financial statements, as required by SA Standards of GRAP, GRAP 24, *Presentation of budget information in financial statements*.

Risk management

27. The municipality did not include information regarding financial assets, past due but not impaired, expenditure to price risks, classification of liquidity risk, credit risk and interest rate risks, nature and carrying amount of financial and non-financial assets and a maturity analysis for borrowings, as required by GRAP 104, in note 45 to the financial statements.

Distribution losses

28. The municipality did not include particulars of material losses in the notes to the financial statements, as required by section 125(2)(d)(i) of the MFMA. As the municipality did not maintain adequate records of water and electricity consumption and purchases, I was unable to determine the full extent of the understatement for the current and corresponding financial years as it was impracticable to do so.

Aggregation of immaterial uncorrected misstatements

29. I was unable to obtain sufficient appropriate audit evidence regarding the following items making up the statement of financial position and the statement of financial performance and the notes to the financial statements, which had a cumulative effect on the financial statements:

- Inventory of R484 917 (2013: R503 577) as disclosed in note 5 to the financial statements.
- Other financial liabilities of R9 305 243 (2013: R15 919 863) as disclosed in note 13 to the financial statements.
- Lease commitments were not disclosed in the annual financial statements. In the absence of the lease contracts, the full extent of the misstatement could not be determined.
- The municipality did not include particulars of other disclosures in the notes to the financial statements, as required by sections 125(1)(b), 125(2)(e) and 123(1)(c) of the MFMA.

I was unable to confirm these items by alternative means. As a result, I was unable to determine whether any adjustment to these items was necessary.

Disclaimer of opinion

30. 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 the financial statements.

Emphasis of matters

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

Going concern

32. Note 46 to the financial statements indicates that the municipality incurred a net loss of R52 010 286 (2013: R73 486 561) during the year ended 30 June 2014. This condition, along with the other matters as set forth in note 46, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

Material impairments

33. As disclosed in note 8 to the financial statements, a provision for impairment of debtors amounting to R155 509 266 (2013: R155 509 266) has been made with regard to consumer debts amounting to R392 002 435 (2013: R295 960 216).

Additional matters

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

Unaudited disclosure notes

35. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Unaudited supplementary schedules

36. 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 REGULARITY REQUIREMENTS

37. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for the selected development priorities presented in the annual performance report, compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

38. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priority presented in the annual performance report of the municipality for the year ended 30 June 2014:
- Development priority 4: Trading services on pages, XX to XX.
39. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
40. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPi).
41. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
42. The material findings in respect of the selected development priority are as follows:

Development priority 4: Trading services

Usefulness of reported performance information

43. Section 41(c) of the Municipal Systems Act (MSA) requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. All (100%) of the reported objectives were not consistent with those in the approved integrated development plan. This was due to failure to implement the approved policies and procedures.
44. The FMPPi requires the following:
- Performance targets must be specific in clearly identifying the nature and required level of performance. None of the targets were specific.
 - Performance targets must be measurable. I could not measure the required performance for all (100%) of the targets.
 - Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. None of the indicators were well defined.
 - Performance indicators must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. None of the indicators were verifiable.

This was due to a lack of proper technical indicator descriptions.

Reliability of reported performance information

45. The FMPPi requires municipalities to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable corroborating evidence could not be provided for all (100%) of the targets to assess the reliability of the reported performance information. The municipality's records did not permit the application of alternative audit procedures.

Additional matter

46. I draw attention to the following matter:

Achievement of planned targets

47. Refer to the annual performance report on pages XX to XX for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected development priorities reported in paragraphs XX to XX of this report.

Compliance with legislation

48. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

49. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance reporting and how it is conducted, organised and managed, including determining the roles of the different role-players, as required by sections 38 of the MSA and regulation 7 of the *Municipal planning and performance management regulations*.
50. Key performance indicators, including input, output and outcome indicators, in respect of each of the development priorities and objectives were not set out in the integrated development plan, as required by section 41(1)(a) of the MSA and the regulations 1 and 9(1)(a) of the *Municipal planning and performance management regulations*.

Budget

51. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

Annual financial statements, performance and annual reports

52. 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 in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.
53. The 2012-13 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.
54. An oversight report containing comments on the annual report was not adopted by council within two months from the date on which the 2012-13 annual report was tabled, as required by section 129(1) of the MFMA.

Procurement and contract management

55. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded and quotations were accepted in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive, due to management not being able to timeously provide me with all the supporting documentation.

56. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were only awarded to and accepted from providers whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.
57. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
58. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value of below R200 000 were procured by means of obtaining the required price quotations, as required by SCM regulation 17(a) and (c).
59. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by the code of conduct for staff members issued in terms of the MSA.
60. Awards were made to providers who are in the service of the municipality or whose directors/ principal shareholders are in the service of the municipality in contravention of section 112(j) of the MFMA and SCM regulation 44.
61. Awards were made to providers who are in the service of other state institutions or whose directors/ principal shareholders are in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44.

Expenditure management

62. Money owing by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.
63. 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.
64. Reasonable steps were not taken to prevent unauthorised, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Revenue management

65. An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA.
66. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

Assets management and liability management

67. 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.
68. 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.
69. An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.
70. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the MFMA.

Consequence management

71. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.
72. Authorisation of unauthorised expenditure was not done through an adjustment budget, as required by section 32(2)(a)(i) of the MFMA.

Environmental management

73. The municipality operated five waste disposal sites without a waste management licence or permit, in contravention of section 20(b) of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008).

Internal control

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

Leadership

75. Leadership did not adequately respond to the AGSA's recommendations as they did not effectively discharge their oversight responsibilities to ensure an improvement in the key control environment and ultimately the audit outcome. Although an action plan was in place, it was inadequately monitored. The internal audit unit was the only stakeholder that monitored the implementation of the action plan. Management did not prioritise the addressing of audit report matters which could have ensured a better audit outcome for the municipality.
76. The leadership placed significant over reliance on the use of consultants. The work of the consultants was not monitored by the leadership thus resulting in inefficiencies regarding deliverables. Furthermore, this resulted in lack of skills being transferred as per the terms of reference.
77. The leadership did not always take timely and adequate action to address weaknesses in the finance and supply chain management directorates due to lack of monitoring and supervision, which resulted in material misstatements in the financial statements, non-compliance with applicable legislation which gave rise to irregular expenditure.
78. The leadership could not effectively monitor internal control activities due to the lack of a system to hold individual staff members accountable for their internal control responsibilities. Consequently, management did not implement corrective measures in all instances of non-compliance with laws, regulations and departmental policies.
79. Consequences management was not effective as the council did not investigate instances of irregular expenditure to determine whether any person was liable for the expenditure as the council neglected to appoint a committee to investigate the expenditure.

Financial and performance management

80. The financial statements were not properly reviewed for completeness and accuracy prior to submission for auditing as they did not allow them adequate time to review the financial statements before submission thereof as the internal controls was not operating

effectively during the year. This resulted in many findings relating to incorrect disclosure and non-disclosure. In certain instances the municipality did not prioritise the submission of adequate supporting documentation and responses to audit queries during the audit. Certain material audit findings communicated to the municipality during the audit were also not timely investigated and corrected by management, which resulted in audit report paragraphs that could not be resolved or cleared in time.

81. The municipality did not implement proper record keeping to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting. Management did also not implement controls over daily and monthly processing and reconciling of transactions. The municipality did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information. Furthermore the municipality did not design and implement formal controls over information technology systems to ensure the reliability of the systems and the availability, accuracy and protection of information
82. The municipality did not always comply with applicable laws and regulations. There were no formal processes in place to effectively monitor compliance with legislation, which resulted in a large number of reported non-compliance issues. There was also a lack of consequences where laws and regulations were not complied with.
83. Due to the change in management with regards to performance management, there were no steps taken to ensure consistency between the integrated development plan, the annual performance plan and the annual performance report. Furthermore, staff members do not understand performance information reporting requirements and action was not taken during the year to communicate and implement the applicable requirements.

Governance

84. The municipality did not institute steps based on the risk assessment performed to address the risks relating the municipality and its' environment. Furthermore, the internal audit reports were not followed up and addressed by management in a timely manner. The municipal officials were not made aware of all the requirements as contemplated in the policies and procedure manuals.

Auditor-General

Bloemfontein

30 November 2014



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence