

# 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 2013, the statements of financial performance, changes in net assets, cash flows for the year then ended and statement of comparison of budget and actual amounts, and the notes, comprising a summary of significant accounting policies and other explanatory information.

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

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (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. The municipality did not correctly account for capital projects as property, plant and equipment in accordance with SA Standards of GRAP, GRAP 17, *Property, plant and equipment*, due to lack of adequate systems in place for capital projects. Consequently, property, plant and equipment is understated by R148 335 462 (2012: R104 923 237) and general expenses and sundry debtors are overstated by R43 412 225 and R104 923 237 (2012: R104 923 237), respectively. Additionally, there is a consequential impact on the surplus for the period and the accumulated surplus. I was also unable to obtain sufficient appropriate audit evidence regarding 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 SA Standards of GRAP, GRAP 17 *Property, plant and equipment* were complied with. I was unable to confirm property, plant and equipment by alternative means. Consequently, I was unable to determine whether any further adjustment relating to property, plant and equipment stated at R1 030 118 359 (2012: R1 125 971 550) 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*. As the municipality did not maintain adequate records of outstanding payments for goods and services received but not yet paid at year-end and retention

monies paid on capital projects, I was not able to determine the full extent of the misstatement in payables from exchange transactions 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. I was unable to confirm payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments relating to payables from exchange transactions stated at R260 091 983 (2012: R204 718 316) in note 12 to the financial statements were necessary.

### **Service charges**

6. I was unable to obtain sufficient appropriate audit evidence regarding service charges income, as meter reading books, reports on pre-paid electricity sold and documentation to support journals were not submitted for audit purposes and significant fluctuations in the monthly billing amounts that could not be explained. I was unable to confirm service charges income by alternative means. Consequently, I was unable to determine whether any adjustment relating to service charges income stated at R256 157 344 (2012: R180 329 892) in note 22 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 Standard of GRAP, GRAP 104, *Financial instruments*. I was not able 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, proof of subsequent payments by debtors and supporting documentation for journal entries. I was unable to confirm consumer receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments relating to consumer receivables from exchange transactions stated at R140 450 950 (2012: R74 048 573) in note 8 to the financial statements were necessary.

### **Consumer receivables from non-exchange transactions**

8. The municipality did not assess its consumer receivables from non-exchange transactions for impairment as required by SA Standard of GRAP, GRAP 104, *Financial instruments*. I was not able 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 consumer receivables from non-exchange transactions, as the municipality was not able to provide me with indigent applications, proof of subsequent payments by debtors and supporting documentation for journal entries. I was unable to confirm consumer receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments relating to consumer receivables from non-exchange transactions stated at R65 557 568 (2012: R50 705 363) in note 7 to the financial statements were necessary.

### **Unauthorised expenditure**

9. 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 being understated by R187 185 223 (2012: R116 060 646). In addition, I was unable to obtain sufficient appropriate audit evidence that all instances of unauthorised

expenditure had been disclosed, as the municipality did not provide me with a breakdown of the surplus/deficit per vote and supporting documentation was not submitted for all the relevant expenditure transactions. 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.

### **Employee related cost**

10. I was unable to obtain sufficient appropriate audit evidence regarding employee related cost 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 (2012: R119 272 827) in note 27 to the financial statements was necessary.

### **General expenses**

11. The municipality did not record general expenses transactions in the correct financial year and against the correct expense type as required by SA Standards of GRAP, GRAP 1, *Presentation of financial statements*. Consequently, general expenses are overstated by R9 756 452, repairs and maintenance understated by R7 920 985, contracted services overstated by R489 737 and accumulated surplus overstated by R2 325 204. In addition, I was unable to obtain sufficient appropriate audit evidence regarding general expenses as the municipality could not submit all the relevant expenditure vouchers and journals. I could not confirm general expenses by alternative means. Consequently, I was unable to determine whether any further adjustments to general expenses stated at R164 575 396 (2012: R83 511 330) in note 35 to the financial statements were necessary.

### **Investment property**

12. The municipality did not assess the fair value of investment property, as required by SA Standards 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 classification as an 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 (2012: R152 718 000) in note 10 to the financial statements was necessary.

### **Bulk purchases**

13. The municipality did not recognise expenses in the correct financial year as required by SA Standards of GRAP, GRAP 1, *Presentation of financial statements*. Consequently, bulk purchases are overstated by R31 847 145, property, plant and equipment are understated by R1 117 900 and accumulated surplus is 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 adjustments to bulk purchases stated at R128 865 523 in note 33 to the financial statements were necessary.

### **Depreciation and amortisation**

14. 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 adjustments relating to depreciation and amortisation stated at R97 194 922 (2012: R98 144 384) in note 30 to the financial statements were necessary.

### **Impairment loss**

15. 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 SA Standard of GRAP, GRAP 104, *Financial instruments*. 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 in impairment loss in note 31 to the financial statements as it was impracticable to do so.

### **Irregular expenditure**

16. 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 R8 802 976 (2012: R8 073 107). In addition, I was unable to obtain sufficient appropriate audit evidence that procurement requirements were adhered to for all relevant awards, as the municipality did not provide me with the tender documents. I was unable to confirm the irregular expenditure by alternative means. Consequently, I was unable to determine whether any adjustments to irregular expenditure stated at R15 417 665 (2012: R13 979 366) in note 43 to the financial statements were necessary.

### **Commitments**

17. I was unable to obtain sufficient appropriate audit evidence regarding commitments due to an inadequate contract management system, an incomplete contract register and contracts that could not be submitted. I was unable to confirm the balances by alternative means. Consequently, I was unable to determine whether any further adjustments relating to capital commitments stated at R0 (2012: R146 826 763) and R40 872 092 (2012: R46 690 000) in note 39 to the financial statements were necessary.

### **Finance cost**

18. The municipality did not correctly classify finance cost expenditure in accordance with SA Standards of GRAP, GRAP 1, *Presentation of financial statements*, as these expenses were incorrectly allocated to other expense items. Consequently, finance cost expenditure as disclosed in note 32 is understated by R31 116 832 (2012: R10 721 372), bulk purchases as disclosed in note 33 are overstated by R17 979 711 (2012: R11 598 331), general expenses as disclosed in note 35 are overstated by R12 849 376 (understated by 2012: R5 014 478), contracted services as disclosed in note 34 are overstated by R255 342, employee related cost as disclosed in note 27 is overstated by R32 403 (2012: R243 209) and the corresponding accumulated surplus is overstated by R3 894 310.

### **Prior period errors**

19. The municipality did not disclose adjustments made to prior year balances correctly in the statement of changes in net assets as required by SA Standards of GRAP, GRAP 1, *Presentation of financial statements*. The effect of prior period errors was not split between the effect on the current year's balances and the prior year opening balance. Consequently, the balance as at 1 July 2011 is understated by R17 540 296. In addition, I was unable to obtain sufficient appropriate audit evidence regarding

adjustments made to corresponding balances. I was unable to confirm prior period errors by alternative means. Consequently, I was unable to determine whether any further adjustments relating to prior period errors disclosed in note 40 to the financial statements were necessary.

### **Cash flow statement**

20. I was unable to obtain sufficient appropriate audit evidence regarding the cash flow statement due to the limitations placed on my audit of various components of the financial statements as well as 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.

### **Distribution losses**

21. 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.

### **Inventories**

22. The municipality did not disclose water inventory and vacant residential stands as inventory as required by SA Standards of GRAP, GRAP 12 *Inventory*. As the municipality did not maintain a complete and accurate fixed asset register, I was not able to determine the full extent of the misstatement in inventories, stated at R503 577 (2012: R597 195) in note 5 to the financial statements, as it was impracticable to do so.

### **Aggregation of immaterial uncorrected misstatements**

23. The financial statements as a whole are materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following elements making up the statement of financial position and the statement of financial performance and the notes to the financial statements:
- Repairs and maintenance expenditure reflected as R18 581 748 (2012: R11 325 826) in the statement of financial performance are overstated by R7 740 986 (2012: R6 739 297).
  - Non-current portion of other financial liabilities reflected as R15 919 863 (2012: R17 951 719) in the statement of financial position is overstated by R8 051 676 (2012: R8 055 301).
  - Taxes paid as disclosed in note 44 to the financial statements are understated by R8 777 579.
  - Property rates income reflected as R48 722 964 in note 25 to the financial statements are understated by R8 888 712.

In addition, I was unable to obtain sufficient appropriate audit evidence and I was unable to confirm or verify the following elements by alternative means:

- Other financial liabilities reflected as R15 919 863 in note 18.
- VAT receivable reflected as R6 406 867 in note 9.
- Provisions reflected as R35 846 598 (2012: R22 754 810) in note 17.
- Contingent liabilities disclosed in note 41.

As a result, I was unable to determine whether any further adjustments to these elements were necessary.

### **Disclaimer of opinion**

24. 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**

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

### **Restatement of corresponding figures**

26. As disclosed in note 40 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered during 2013 in the annual financial statements of the municipality at, and for the year ended, 30 June 2012.

### **Going concern**

27. Note 48 to the financial statements indicates that the Ngwathe Local Municipality incurred a net loss of R73 486 561 (2012: R103 083 432) during the year ended 30 June 2013. This, along with the other matters as set forth in note 48, indicates the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

### **Material losses and impairments**

28. As disclosed in note 35 to the financial statements, material losses to the amount of R59 460 672 (2012: R31 055 364) were incurred as a result of bad debts written off.

### **Additional matter**

29. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### **Unaudited supplementary schedules**

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

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

31. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

### **Predetermined objectives**

32. I performed procedures to obtain evidence about the usefulness and reliability of the information in the service delivery performance report as set out on pages xx to xx of the annual report.
33. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is

consistent with the planned development objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).

34. The reliability of the information in respect of the selected development objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
35. The material findings are as follows:

#### **Usefulness of information**

36. The Municipal Systems Act (MSA), section 41(c) requires that the actual achievements against all planned indicators and targets be reported annually. The service delivery performance report submitted for audit purposes did not include the actual performance of 100% of all planned indicators and targets specified in the service delivery and budget implementation plan for the year under review. This was due to a lack of monitoring and review of the completeness of the reporting documents by management.
37. The National Treasury's FMPPI requires that performance targets be measurable. The required performance could not be measured for a total of 64% of the planned targets. This was due to a lack of supporting source documentation relating to performance targets.
38. The National Treasury's FMPPI requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 79% of the planned indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to management not applying the requirements of the FMPPI and a lack of monitoring and review of the completeness of the planned documents by management.
39. The National Treasury's FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. A total of 64% of the planned indicators were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to lack of effective mechanisms, systems and processes for the collecting, recording, processing, monitoring and reviewing of the actual performance information.
40. The National Treasury's FMPPI requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 21% of the targets were not specific in clearly identifying the nature and the required level of performance. This was due to a lack of monitoring and review of the planning documents by management.

#### **Reliability of information**

41. The National Treasury's FMPPI requires that institutions should 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.  
For all the indicators and targets in respect of the development priorities water, sanitation, electricity, roads and storm water the actual reported performance was not reported on as the prescribed tables were not included in the service delivery

performance report. This was due to a lack of monitoring and review of the completeness of the reporting documents by management.

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

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

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

43. The municipality did not establish a performance management system, as required by section 38(a) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).
44. The municipality did not have and maintain effective, efficient and transparent systems of internal control, as required by section 62(1)(c)(i) of the MFMA.

### **Budget**

45. 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.
46. Quarterly reports were not submitted to the council on the implementation of the budget and financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.
47. Sufficient appropriate audit evidence could not be obtained that monthly budget statements were submitted to the mayor and the relevant provincial treasury, as required by section 71(1) of the MFMA.

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

48. 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.
49. The annual report for the year under review does not include an assessment by the accounting officer of any arrears on municipal taxes and service charges, the accounting officer's assessment of the municipality's performance against measurable performance objectives for revenue collection from each revenue source and for each budget vote and particulars of any corrective action taken or to be taken in response to issues raised in the audit report, as required by section 121(3)(e), (f) and (g) of the MFMA.
50. An oversight report, containing comments on the annual report, was not adopted by council within two months from the date on which the 2011-12 annual report was tabled, as required by section 129(1) of the MFMA.
51. The council's oversight report on the 2011-12 annual report was not made public within seven days of its adoption, as required by section 129(3) of the MFMA.



52. The annual performance report for the financial year under review was not prepared as required by section 46 of the MSA and section 121(3)(c) of the MFMA.
53. The annual performance report for the year under review does not include the performance of the municipality, a comparison of the performance with set targets, a comparison with the previous financial year and measures taken to improve performance, as required by section 46(1)(a)(b)(c) of the MSA.

### **Audit committee**

54. The audit committee did not advise the accounting officer on matters relating to internal financial control and internal audits, risk management, accounting policies, effective governance, performance management and performance evaluation, as required by section 166(2)(a) of the MFMA.
55. The audit committee did not advise the accounting officer on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.
56. The audit committee did not advise the accounting officer on matters relating to compliance with legislation, as required by section 166(2)(a)(vii) of the MFMA.
57. The audit committee did not review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the entity, its efficiency and effectiveness and its overall level of compliance with legislation, as required by section 166(2)(b) of the MFMA.
58. The audit committee did not respond to the council on the issues raised in the audit reports of the Auditor-General, as required by section 166(2)(c) of the MFMA.
59. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.
60. The audit committee, which also performed the duties of the performance audit committee, did not meet at least twice during the financial year, as required by Municipal Planning and Performance Management (MPPM) Regulation 14(3)(a).
61. The audit committee did not review the municipality's performance management system and make recommendations to the council, as required by MPPM Regulation 14(4)(a)(ii).
62. The audit committee did not review the quarterly internal audit reports on performance measurement, as required by MPPM Regulation 14(4)(a)(i).
63. The audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by MPPM Regulation 14(4)(a)(iii).

### **Internal audit**

64. The internal audit unit did not function as required by section 165(2) of the MFMA, in that:
  - it did not report to the audit committee on the implementation of the internal audit plan.
  - it did not report to the audit committee on matters relating to internal audit, internal

controls, accounting procedures and practices, risk and risk management and loss control.

### **Procurement and contract management**

65. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded 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.
66. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act (PPPFA) and SCM Regulation 28(1)(a).
67. Sufficient appropriate audit evidence could not be obtained that contracts were only awarded to and quotations were only 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.
68. Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to and quotations were accepted only from bidders who had submitted a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM Regulation 13(c).
69. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
70. 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).
71. 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.
72. Quotations were accepted from prospective providers who are not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy, in contravention of SCM Regulations 16(b) and 17(b).
73. 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 MFMA section 112(j) and SCM Regulation 44.

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

74. The senior managers directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) of the MSA.
75. Sufficient appropriate audit evidence could not be obtained that appointments were only made in posts which were provided for in the approved staff establishment of the municipality, as required by section 66(3) of the MSA

76. Sufficient appropriate audit evidence could not be obtained that job descriptions were established for all posts in which appointments were made in the current year, as required by section 66(1)(b) of the MSA.
77. The competencies of financial and SCM officials were not assessed in a timely manner in order to identify and address gaps in competency levels, as required by the Municipal Regulations on Minimum Competency Levels Regulation 13.
78. Sufficient appropriate audit evidence could not be obtained that the municipality developed and adopted appropriate systems (policies) and procedures to monitor, measure and evaluate the performance of staff, as required by section 67(d) of the MSA.

### **Expenditure management**

79. 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.
80. 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.
81. 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.

### **Conditional grants**

82. The municipality did not evaluate its performance in respect of programmes funded by the Municipal Systems Infrastructure Grant (MSIG), Finance Management Grant and Integrated National Electrification Programme Grant and submit the evaluation to the transferring national officer within two months after the end of the financial year, as required by section 12(5) of DoRA.
83. The municipality did not submitted, within 10 days after the end of each month, its monthly expenditure reports to the national department (CoGTA), as required by the Division of Revenue Grant Framework, Gazette No.35399 with regard to the MSIG.
84. The municipality did not register its master plans for bulk infrastructure with the Integrated National Electrification Programme, as required by the Division of Revenue Grant Framework, Gazette No.35399.
85. The municipality did not timeously submit to the department of Local Government project registration forms for projects it intended to implement in the financial year 2013-14, as required by the Division of Revenue Grant Framework, Gazette No.35399.
86. The municipality did not submit quarterly performance reports to the transferring national officer, the relevant provincial treasury and the National Treasury, within 30 days after the end of each quarter, as required by section 12(2)(c) of DoRA.

### **Revenue management**

87. A credit control and debt collection policy was not implemented, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of the MFMA.
88. 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.

89. 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**

90. 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.
91. 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.
92. 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.
93. 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**

94. Unauthorised expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.
95. Irregular expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.
96. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.
97. The condoning of irregular expenditure was not approved by the appropriate relevant authority, in accordance with the requirements of sections 1 and 170 of the MFMA.

### **Internal control**

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

### **Leadership**

99. The leadership did not always take timeous and adequate action to address weaknesses in the finance and SCM directorate, which resulted in non-compliance with applicable legislation and gave rise to unauthorised, fruitless and wasteful and irregular expenditure. The municipality failed to properly analyse the control weaknesses and implement appropriate follow-up actions that adequately addressed the root cause. This resulted in the audit findings in the prior year report recurring in the current year.

## Financial and performance management

100. Effective performance systems, processes and procedures, as well as the management thereof, had not been adequately developed and implemented. Inadequate filing procedures at the municipality resulted in limitations of scope during the current and previous year's audits. As a result significant difficulties were experienced in respect of the availability of information. The financial statements were not properly reviewed for completeness and accuracy prior to submission for auditing. This resulted in many findings relating to incorrect disclosure or non-disclosure. The municipality did not have the capacity to address backlog issues and financial system problems, resulting in the need to appoint a consultant to draw up the financial statements. In certain instances, staff members in the finance department had an inadequate understanding of the accounting framework, which contributed to the numerous qualifications in the municipality's financial statements.

## Governance

101. Internal control deficiencies identified by internal audit were not corrected in a timely manner. The implementation of external audit recommendations was not prioritised and also not monitored. This resulted in the prior year audit findings not being substantially addressed. Although the municipality had an internal audit division, it was not adequately resourced and functioning.

Bloemfontein

29 November 2013



AUDITOR - G E N E R A L  
S O U T H   A F R I C A

*Auditing to build public confidence*