

**REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE MOHOKARE LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2008**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I was engaged to audit the accompanying financial statements of the Mohokare Local Municipality which comprise the balance sheet as at 30 June 2008, income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages [xx] to [xx].

**Responsibility of the accounting officer for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the entity-specific basis of accounting, as set out in accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2007 (Act No. 1 of 2007) (DoRA). This responsibility includes:
  - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
  - selecting and applying appropriate accounting policies
  - making accounting estimates that are reasonable in the circumstances.

**Responsibility of the Auditor-General**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126 of the MFMA, my responsibility is to express an opinion on these financial statements based on the audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Because of the matters discussed in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

**Basis of accounting**

4. The municipality's policy is to prepare financial statements on the entity-specific basis of accounting, as set out in accounting policy note 1.

## Basis for disclaimer of opinion

### Fixed assets

5. Sufficient appropriate audit evidence could not be obtained as to the completeness, rights and obligations, existence and valuation of fixed assets to the value of R137 381 409 (2007: R117 210 077) as disclosed in note 4 to the financial statements due to the following:
- a) Adequate supporting evidence to prove that sufficient control was exercised over the fixed assets of the municipality for the current and prior year could not be provided to me. Management had not updated the fixed asset register since 1 July 2006 and could not provide evidence that a physical count of fixed assets was performed during the year or at year-end. The accuracy of the classification of assets as recorded in the financial statements could also not be confirmed due to the asset register not being classified according to the different services.
  - b) Management did not ensure that the municipality's fixed asset register agrees with the general ledger. A difference amounting to R23 564 543 for the current year and R22 333 563 for the prior year was identified between the fixed asset register and the general ledger. The entity's records did not permit the application of alternative audit procedures.
  - c) Management was unable to provide me with adequate supporting documentation for fixed assets to the amount of R2 079 020 that served as collateral for the long-term liabilities, as disclosed in note 2.2 to the financial statements.
  - d) Management was unable to provide me with sufficient appropriate audit evidence in respect of additions to fixed assets amounting to R3 853 943 in the current year and R5 923 847 in the previous year. In the absence of supporting documentation there were no reasonable alternative procedures that I could perform to obtain assurance of the valuation of these fixed assets.
  - e) Management was unable to provide me with sufficient appropriate audit evidence for assets written off, transferred or disposed of for the prior year amounting to R1 279 047 as disclosed in the previous year's financial statements. The entity's records did not permit the application of alternative audit procedures to confirm these amounts. Accordingly, I was not able to determine whether any adjustments might have been necessary to the amounts shown as fixed assets in the financial statements.
  - f) Management was unable to provide me with sufficient appropriate audit evidence for journal entries recorded in the previous year against fixed assets amounting to R142 382. The entity's records did not permit the application of alternative audit procedures. Accordingly, I was not able to determine whether any adjustments to the amounts disclosed as fixed assets in the financial statements might have been necessary.

### Accumulated deficit

6. Sufficient appropriate audit evidence could not be obtained for the completeness, existence and valuation of the accumulated deficit to the amount of R20 359 556 (2007: R19 994 192) as disclosed in the balance sheet, due to the following:
- a) Management was unable to provide me with sufficient appropriate audit evidence in respect of journals amounting to R3 212 593 in the current year and R9 401 228 in the previous year recorded directly against the accumulated deficit in the form of appropriations. The entity's records did not permit the application of alternative audit procedures to confirm these journal entries. Accordingly, I was not able to determine whether any adjustments to the accumulated deficit for the year as disclosed in the financial statements might have been necessary.
  - b) Management was unable to provide me with sufficient appropriate audit evidence in respect of a journal amounting to R170 344 against the accumulated deficit in the form of appropriations. No authorisation could be obtained for this journal which was generated to write off a vehicle loan account of a former employee of the municipality.
  - c) The applicable basis of accounting requires that the financial records should be prepared in such a way that expenses that apply to prior periods are segregated from the current results of the municipality. A journal to adjust the balance of the bonus provision and a reimbursement payment to an employee was incorrectly generated and processed. As a result the deficit for the year was overstated and the appropriations for the year understated by R144 104 in the income statement.

### Creditors

7. Audit assurance could not be obtained as to the existence, completeness, rights and obligations of creditors as disclosed in the balance sheet amounting to R21 054 168 for the current year and R19 715 897 for the previous year due to the following:
- a) Management could not provide explanations or sufficient audit evidence for accounts to the total value of R851 880 in the current year and R1 770 479 in the previous year disclosed as creditors in the financial statements. The entity's records did not permit the application of alternative audit procedures. Accordingly, I was not able to determine whether any adjustments to creditors and the deficit for the year as disclosed in the financial statements might have been necessary.
  - b) Supporting documentation could not be provided by management in respect of journal entries recorded against the creditors account amounting to R5 269 633. The entity's records did not permit the application of alternative audit procedures. Accordingly, I was not able to determine whether any adjustments might have been necessary to creditors and the deficit for the year as disclosed in the financial statements.
  - c) Management could not provide me with sufficient appropriate evidence for the difference of R3 724 252 between the MIG for the bucket eradication programme not utilised of R2 940 820 as disclosed in note 25.2.2 of the financial statements and the amount of R6 665 072 according to the contract registers. The entity's records did not permit the application of alternative audit procedures. Accordingly, I was not able to determine whether any adjustments to creditors as disclosed in the financial statements might have been necessary.

- d) The applicable basis of accounting requires that the financial records should be prepared on the accrual basis. A journal to adjust the balance of a creditor's account was incorrectly generated and processed. As a result creditors and accumulated deficit in the balance sheet were both overstated by R379 998.
- e) The applicable basis of accounting requires consistency in the accounting figures to facilitate comparability in the disclosure of financial information. The classification of creditors' accounts was changed in the current year without adjusting the comparative figures accordingly. Creditors of R1 049 868 in the prior year was thus not disclosed due to the adjustment of the classification in the current year.
- f) Included in creditors as disclosed in note 10 to the financial statements were unknown and unreceipted deposits of R3 077 566 in the current year and R1 773 972 in the prior year. Included in the outstanding balance of R3 077 566 were unreceipted deposits relating to the previous years to the amount of R1 984 738 which was still not resolved at year-end. No evidence could be provided by management that a list of unknown deposits were reviewed, followed up on a regular basis and approved by an independent senior official. Accordingly, I was not able to determine whether any adjustments to creditors as disclosed in the financial statements might have been necessary.
- g) The municipality was entitled to an amount of R13 939 000 in MIG for the 2006-07 financial year as stipulated in the *Government Gazette No. 28740*. The municipality only received R12 731 000. Creditors and debtors were therefore understated by R1 208 000.
- h) The occurrence and accuracy of amounts recorded as grants received in the prior year in respect of provincial grants for water demand to the amount of R839 000 and water purification (Rouxville) amounting to R299 965 as disclosed in notes 25.3.5 and 25.3.6, respectively, could not be verified due to adequate supporting documentation not provided by the municipality.
- i) Disclosed in note 25.2.3: MIG- Caledon River project in the prior year was an amount of R2 399 725 transferred to fixed assets. This amount could not be followed through to the additions to fixed assets for the year and consequently the existence of assets could not be verified.
- j) Adjustments to the opening balances of the prior year in respect of unspent grants relating to the MIG- Bucket Eradication Programme and MSIG, as disclosed in notes 25.2.2 and 25.2.5, amounting to R478 800 and R330 868, respectively, could not be confirmed due to supporting documentation not provided by the municipality. The existence and the valuation of these unspent grants could therefore not be verified.
- k) Grants to the amount of R1 234 000 received in the prior year in terms of DoRA were erroneously included under grants received from provincial government and not under grants received from central government. This resulted in the understatement of central government grants and overstatement of provincial grants in the prior year.
- l) Payments received from the debtors to the amount of R189 838 were allocated and disclosed as trade and sundry creditors in note 10 to the annual financial statements. Creditors and debtors were therefore overstated by R189 838.

- m) Included in creditors as disclosed in the financial statements of the electrical service provider was an amount of R102 257 relating to contributions made by the public for capital infrastructure expenditure. Management indicated that all the expenses have already been incurred. However, no calculations or accounting entries were made to recognise all or part of the contributions made by the public as revenue. Accordingly, I was not able to determine whether any adjustments might have been necessary to creditors and the surplus for the year as disclosed in the financial statements.

#### **Provisions**

8. The leave records of the municipality were not reliable for purposes of establishing the accuracy and completeness of leave to the credit of officials at year-end. Reliable reports could not be generated from the system that distinguish between accumulated leave and capped leave, leave taken during the leave cycle to determine whether the officials took the minimum leave days as required by the collective agreement. In a number of instances it was noted that leave was taken without obtaining approval from the immediate supervisor or the accounting officer, leave was captured on the system but approved leave forms could not be obtained and in some instances, leave was approved but not captured onto the system. Furthermore, due to the instances noted above, it could not be determined whether leave that should have been forfeited was also included in the calculation for the provision. The leave records were therefore not a reliable basis for calculation of the provision for leave as included in the balance sheet and disclosed in note 9 to the financial statements. I was thus unable to obtain sufficient appropriate evidence as to the valuation of the provision for leave amounting to R2 307 384. In the absence of reliable leave records, it was not possible to perform alternative procedures to accurately determine the value of the provision.
9. Provisions in respect of leave payout and pro rata bonus were disclosed in note 9 to the financial statements amounting to R2 307 384 and R426 173, respectively. Management decided during the period under review not to pay out amounts due in respect of leave and pro rata bonuses to the officials who either retire or resign during the current period. However, these amounts were not included in the provisions, resulting in understatement of provisions by an amount of R51 229 and R41 125, respectively.

#### **Personnel expenditure**

10. Due to the lack of supporting documentation and the following reasons, I could not obtain adequate audit assurance as to the occurrence, completeness, accuracy and classification of personnel expenditure included in the amount for expenditure, namely R19 640 348, as disclosed in the income statement:
- a) Sufficient appropriate audit evidence relating to employee and employee-related costs to the amount of R3 301 617 could not be obtained. In the absence of adequate supporting documentation it was also not possible to perform alternative procedures.
  - b) Payroll deductions and council contributions for the prior year in respect of pension fund and medical aid deductions as disclosed in note 28.6 to the financial statements had been overstated by an amount of R139 473.
  - c) Councillors' remuneration for the prior year as disclosed in note 13 had been understated by an amount of R296 081.

## Expenditure

11. Audit assurance could not be obtained as to the occurrence, completeness, accuracy and classification of expenditure included in the amount for expenditure, namely R27 512 160, as disclosed in the income statement due to the following:
- a) Sufficient supporting documentation could not be provided for journal entries recorded against the expenditure accounts amounting to R733 790. The entity's records did not permit the application of alternative audit procedures. Accordingly, I was not able to determine whether any adjustments to the amounts shown in the financial statements for expenditure might have been necessary.
  - b) Sufficient supporting documentation could not be provided for expenditure transactions amounting to R1 495 040. The entity's records did not permit the application of alternative audit procedures.

## Debtors

12. Sufficient supporting documentation could not be provided in respect of debtor accounts to the amount of R2 059 257 in the current year and R230 065 in the previous year. The entity's records did not permit the application of alternative audit procedures. Consequently, I did not obtain all the information and explanations I considered necessary to confirm the existence of these debtors.
13. The municipality entered into a service level agreement with an independent service provider to outsource the provision of electricity services. The service delivery agreement requires the electrical service provider to maintain bookkeeping and prepare the annual financial statements in respect of the electricity provision to annually provide the municipality with the surplus or deficit in the operational account. The electrical service provider's confirmation of surplus or deficit in the operational account includes a debtor of R1 517 277 for the current year and R1 329 657 for the previous year regarding free basic electricity provided to the community. The debtor originates from revenue transactions in the records of the service provider. The municipality makes payments for free basic electricity directly to Eskom and as a result these transactions were incorrect as the debtor does not exist. Consequently, debtors were overstated and accumulated deficit understated by R1 517 277.
14. The debtors balance disclosed in the confirmation of surplus or deficit in the operational account by the electrical service provider was R112 484 more than the balance disclosed in the financial statements according to the debtors sub-ledger, resulting in an overstatement of debtors by the same amount. The entity's records did not permit the application of alternative audit procedures and management was unable to provide acceptable explanations for the difference. Accordingly, I was not able to determine whether any adjustments might have been necessary to debtors as disclosed in the financial statements.
15. Supporting documentation could not be provided by management in respect of journal entries amounting to R759 375 recorded against the VAT debtor control account included in sundry debtors as disclosed in note 8 to the annual financial statements. The entity's records did not permit the application of alternative audit procedures. Accordingly, I was not able to determine whether any adjustments might have been necessary to debtors and the surplus for the year as disclosed in the financial statements.

16. The council approved a write-off of debtors in the previous year to the amount of R352 348. However, the amount was still recorded as outstanding without being written off. Non-compliance with council decisions resulted in overstatement of debtors and understatement of accumulated deficit by R352 348.
17. Included in the debtors in the previous year were credit balances to the amount of R193 996. This amount should have been disclosed as creditors. The debtors and creditors were therefore understated by an amount of R193 996.
18. The amount of R2 791 954 in respect of VAT refundable to the municipality on 30 June 2007 as disclosed in note 28.3 to the annual financial statements was incorrectly disclosed. The VAT refundable amount included in sundry debtors as disclosed in note 8 to the annual financial statements for the current year was R2 992 555, resulting in understatement by an amount of R200 601.

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

19. Due to the lack of sufficient appropriate audit evidence relating to individual loan agreements in respect of expenditure transactions for capital purchases by the electrical service provider on behalf of the municipality, I was unable to confirm or verify by alternative means the carrying value of the long-term liabilities amounting to R1 743 704 in the current year and R1 884 257 in the prior year. Consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself as to the existence, completeness, rights and obligations as well as the valuation and allocation of the long-term liability as disclosed in the balance sheet.
20. The short-term portion of the long-term liabilities for the prior year as disclosed in note 2 of the financial statements was incorrectly calculated, resulting in an understatement and the long-term portion being overstated by an amount of R1 034 383.

#### **Unauthorised expenditure**

21. Unauthorised expenditure is defined in section 1 of the MFMA as any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3), and includes overspending of the total amount appropriated in the municipality's approved budget, overspending of the total amount appropriated for a vote in the approved budget, and expenditure from a vote unrelated to the department or functional area covered by the vote. Overspending of the total amount appropriated for a vote in the approved operational and capital budgets was realised by the municipality to the amount of R8 701 575 and R186 942, respectively. The overspending on the operational budget in the prior year was R2 044 595. This overspending was in respect of various votes within the budget and was not disclosed in the financial statements as required by section 125(2)(d) of the MFMA.

#### **Commitments**

22. The capital commitments for the current year of R10 221 000 for approved and contracted expenditure and R9 485 000 for approved but not yet contracted expenditure as disclosed in note 23 to the financial statements were incomplete and inaccurate. The amounts disclosed were merely the amounts according to the 2008 budget. Capital commitments for the prior year amounting to R16 334 950 were overstated by R10 094 055 due to the inclusion of amounts already disbursed. In

the absence of proper capital project registers, the entity's records did not permit the application of alternative audit procedures. Consequently, I did not obtain all the information and explanations I considered necessary to determine the extent of the resulting misstatement of these commitments.

## Revenue

23. The management of the municipality outsourced the management and collection of traffic fines to an external service provider. The contractual agreement signed between the municipality and the service provider states that a monthly fee equivalent to 30% of all fines collected in a calendar month will be recognised as revenue of the municipality. Included in the actual income disclosed in the income statement was an amount of R1 235 563 in respect of traffic fines provided for as outstanding at year-end. Sufficient supporting documentation could not be provided for the journal generated to account that the revenue is in fact due to the municipality. No control procedures were performed to monitor the compliance with the agreement or to reconcile the amounts received from the service provider. Consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself as to the accuracy and completeness of traffic fines income to the amount of R2 767 621 included as revenue in the income statement.
24. An amount of R2 663 071 from the total equitable share allocation received was used to settle the debtor accounts of indigent households. No evidence could be obtained to determine whether the monthly transactions and journals that account for these allocations were timeously reviewed, revised or approved by a properly authorised official. The entity's records did not permit the application of alternative audit procedures. Accordingly, I was not able to determine whether any adjustments might be necessary to the amounts allocated to the indigent household's debtor accounts.
25. A complete and efficient register in respect of properties and equipment available for rent could not be provided by management. The entity's records did not permit the application of alternative audit procedures. Consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself as to the occurrence, accuracy and completeness of rent income included in actual income as disclosed in the income statement to the amount of R249 505.
26. A complete list/register for rotating electricity meters registered in the municipal area could not be provided. The entity's records did not permit the application of alternative audit procedures. Consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself as to the completeness of electricity income as disclosed in the income statement to the amount of R1 914 975.
27. The amount recorded in the municipal financial records in respect of prepaid electricity income amounted to R4 391 328 (excluding VAT). However, the total amount for the year indicated in the prepaid electricity information system of the municipality in respect of prepaid electricity sold was R4 751 933 (excluding VAT). Consequently, revenue and retained earnings were understated by R360 605.
28. An amount of R1 240 000 was received from the central government during the period under review. Of this amount R680 000 was recorded as unknown deposits and R560 000 in respect of the PHP housing project (People's Housing Process).



These amounts were not recognised in the annual financial statements as grants received, resulting in understatement of grants received as disclosed in note 25 to the annual financial statements.

#### **Irregular expenditure**

29. Section 1 of the MFMA defines irregular expenditure as expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of this act, and which had not been condoned in terms of section 170; expenditure incurred by a municipality in contravention of, or not in accordance with, the requirement of the Municipal Systems Act and which had not been condoned in terms of the act; expenditure incurred by a municipality in contravention of, or not in accordance with, a requirement of the municipality's supply chain management policy, and which had not been condoned in terms of such policy or by-law. Irregular expenditure disclosed in note 27.1 to the financial statements was understated by R5 695 876 in the current and R4 475 928 in the prior year due to the following:
- a) Performance bonuses amounting to R201 137 were awarded in the prior year without performance evaluations and the approval of the council, which is contrary to section 57(4B) of the Municipal Systems Act.
  - b) Expenditure relating to fixed assets of R1 209 032 in the prior year was not duly authorised by the responsible officials as required by section 65(2) of the Municipal Finance Management Act.
  - c) Unspent balances in respect of conditional grants received in terms of DoRA to the amount of R5 217 140 in the current year and R2 878 933 in the prior year were not fully represented by funds, which was an indication that funds were not used for the intended purposes in terms of section 24(1) of the Division of Revenue Act, 2007. These amounts constituted irregular expenditure in terms of section 44(2) of the Division of Revenue Act, 2007.
  - d) Irregular expenditure to the amount of R496 741 in the current year and R169 882 in the prior year was incurred due to supply chain management policy and supply chain management regulations which were not adhered to.
  - e) Adjustments were made to the salaries of the managers directly responsible to the municipal manager without obtaining the approval of the council or the speaker, which is contrary to the prescripts of section 60(1)(b) of the Municipal Systems Act. The payments for the current year were R69 226 and R16 944 for the prior year. This constitutes irregular expenditure and was not disclosed in note 27.1 to the financial statements.

#### **Fruitless and wasteful expenditure**

30. Fruitless and wasteful expenditure is defined in the MFMA as expenditure that was made in vain and would have been avoided had reasonable care been exercised. The municipality incurred fruitless and wasteful expenditure amounting to R1 133 795 in the current year due to the following:
- a) The minutes of the bid evaluation committee in respect of a tender that was recommended and approved were changed to award a tender to another contractor as was originally approved. The contract price of the contractor that was awarded the contract was R468 930 more than the price of the originally successful bidder. The management of the municipality could not provide me with documentation for

the approval to change the minutes, consequently I could not established whether the authorisation to change the minutes was from the delegated official. This amount constitutes fruitless and wasteful expenditure and was not included in note 27.2 to the financial statements.

- b) Additional interest was charged and capitalised against the capital amount by the financial institution DBSA due to the non-payment of instalments by the municipality. An amount of R228 000 in the current year and R76 000 in the prior year had already been paid against the interest raised by the bank. These amounts constitute fruitless and wasteful expenditure and were not included in note 27.2 to the financial statements.
- c) Additional interest and penalties were charged by the South African Revenue Service against the mandatory salary deductions accounts payable by the municipality. An amount of R356 165 was allocated to the appropriation account as it relates to the prior year. This amount constitutes fruitless and wasteful expenditure and was not included in note 27.2 to the financial statements.
- d) Reimbursement payments of R80 700 were made to an employee who was not timeously reinstated by the municipality. This amount constitutes fruitless and wasteful expenditure and was not included in note 27.2 to the financial statements.

#### **Cash and cash equivalents**

- 31. The confirmation received from the electrical service provider indicated a bank overdraft of R2 529 865 in the current year and R1 457 194 in the prior year. These balances were disclosed in the balance sheet of the municipality as a bank overdraft and disclosed in note 11 as part of bank, cash and overdraft balances. The nature of this account in the books and records of the electricity service provider is a balancing account and not a bank account. Consequently, creditors were understated and the bank overdraft overstated by R2 529 865.

#### **Contingent liabilities and contractual obligations**

- 32. Leave pay outstanding and pro rata bonus outstanding at 30 June 2008 amounting to R2 307 384 and R426 173, respectively, were disclosed in note 22 of the financial statements. The amounts for the previous year were R1 535 810 and R823 812, respectively. These amounts were also included as provisions in note 9 to the financial statements. These amounts are regarded as provisions as they do not meet the definition of a contingent liability.

#### **Long-term debtors**

- 33. The short-term portion of long-term debtors for the prior financial year was incorrectly calculated, resulting in the understatement of the short-term portion and overstatement of the long-term portion by R119 088. This was due to monthly instalments not recovered from the responsible official, with the result that the arrear capital balance and interest were not transferred to the short-term portion. Furthermore, discrepancies were identified on the interest capitalised, resulting in a further overstatement of long-term debtors and understatement of accumulated deficit by R2 145.

### Disclaimer of opinion

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

### Emphasis of matters

I draw attention to the following matters:

#### Fruitless and wasteful expenditure

35. Disclosed in note 27.2 to the financial statements was fruitless and wasteful expenditure to the amount of R434 901 in respect of interest levied on outstanding accounts and penalties due to late submission of documentation to SARS.

### OTHER MATTERS

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

#### Internal controls

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

Reporting item	Control environment	Risk assessment	Control activities	Information and communication	Monitoring
Fixed assets	X		X		
Accumulated deficit	X				
Creditors			X		
Personnel expenditure	X		X		
Expenditure	X		X		
Debtors			X		X
Long-term liabilities	X		X		
Unauthorised expenditure			X		
Commitments			X		
Revenue	X		X		
Irregular expenditure			X		X

Reporting item	Control environment	Risk assessment	Control activities	Information and communication	Monitoring
Fruitless and wasteful expenditure			X		X
Cash and cash equivalents	X		X		
Contingent liabilities and contractual obligations	X				
Long-term debtors			X		

**Control environment:** establishes the foundation for the internal control system by providing fundamental discipline and structure for financial reporting.

**Risk assessment:** involves the identification and analysis by management of relevant financial reporting risks to achieve predetermined financial reporting objectives.

**Control activities:** policies, procedures and practices that ensure that management's financial reporting objectives are achieved and financial reporting risk mitigation strategies are carried out.

**Information and communication:** support all other control components by communicating control responsibilities for financial reporting to employees and by providing financial reporting information in a form and time frame that allows people to carry out their financial reporting duties.

**Monitoring:** covers external oversight of internal controls over financial reporting by management or other parties outside the process; or the application of independent methodologies, like customised procedures or standard checklists, by employees within a process.

## Non-compliance with applicable legislation

### Municipal Finance Management Act

37. Management could not provide sufficient evidence and documentation to confirm that the municipality complied with the prescripts in respect of municipal budgets as stipulated in sections 16(2), 17(1), 18(1) & (2), 21(1)(b), 23(1) & (2), 53, 54(2), 69(1) & (3), 70(1) and 71 of the MFMA.
38. I was unable to obtain evidence that management regularly reviewed the delegations in terms of section 79(1)(c) of the MFMA. The latest review of delegations was in February 2006. As a result of the aforementioned, I was unable to confirm that the municipality effectively discharged its responsibilities in terms of section 79(1)(a) of the MFMA.
39. Reconciliations for revenue were not performed as required by section 64(2)(h) of the MFMA.
40. Contrary to the prescripts of section 65(2)(e) of the MFMA, payments amounting to R1 026 896 were identified where suppliers were not paid within 30 days and no proof could be obtained of any measures implemented to track the submission and payment of invoices to ensure compliance with this section of the MFMA.

41. I was unable to obtain evidence that management had developed a risk management policy and strategy for the municipality. As a result of the aforementioned, I was unable to confirm that the municipality discharged its responsibilities in terms of section 62(1)(c)(i) of the MFMA.
42. Monthly reconciliations of creditors accounts were not performed as required by section 65(2)(j) of the MFMA.
43. The contracts procured through the supply chain management system were not managed, monitored and reported on to the council of the municipality as required by section 116(2) of the MFMA.

**Local Government: Municipal Systems Act**

44. Declarations of interest could not be provided by the municipality for all the councillors. This is in contradiction to section 7(1) of schedule 1 of the MSA.
45. No evidence could be obtained that any performance evaluation of employees was done during the year. This is in contradiction to section 67(1)(d) of the MSA.

**Division of Revenue Act**

46. I could not confirm that the municipality had certified to the National Treasury that it exclusively appropriated each programme funded or partially funded by the allocation of the Municipal Infrastructure Grant in its annual budget as required by section 11(2)(a) of the DoRA.
47. The municipality could not provide evidence that the allocations according to schedules 4, 5, 6 and 7 of DoRA are only utilised for the purposes stipulated in the schedule and in accordance with the framework published in terms of section 22.

**Matters of governance**

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

Matter of governance	Yes	No
<b>Audit committee</b>		
• The municipality had an audit committee in operation throughout the financial year.		X
• The audit committee operates in accordance with approved, written terms of reference.		X
• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.		X
<b>Internal audit</b>		
• The municipality had an internal audit function in operation throughout the financial year.	X	
• The internal audit function operates in terms of an approved internal audit plan.		X
• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.		X
<b>Other matters of governance</b>		

Matter of governance	Yes	No
<ul style="list-style-type: none"> <li>The annual financial statements were submitted for auditing as per the legislated deadlines in section 126 of the MFMA.</li> </ul>		X
<ul style="list-style-type: none"> <li>The annual report was submitted to the auditor for consideration prior to the date of the auditor's report.</li> </ul>		X
<ul style="list-style-type: none"> <li>The financial statements submitted for auditing were not subject to any material amendments resulting from the audit.</li> </ul>		X
<ul style="list-style-type: none"> <li>No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.</li> </ul>		X
<ul style="list-style-type: none"> <li>The prior year's external audit recommendations have been substantially implemented.</li> </ul>		X
<ul style="list-style-type: none"> <li>The Provincial SCOPA resolutions have been substantially implemented.</li> </ul>		X
<b>Implementation of Standards of Generally Recognised Accounting Practice (GRAP)</b>		
<ul style="list-style-type: none"> <li>The municipality submitted an implementation plan, detailing progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 30 October 2007.</li> </ul>		X
<ul style="list-style-type: none"> <li>The municipality substantially complied with the implementation plan it submitted to the National Treasury and the relevant provincial treasury before 30 October 2007, detailing its progress towards full compliance with GRAP.</li> </ul>		X
<ul style="list-style-type: none"> <li>The municipality submitted an implementation plan, detailing further progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 31 March 2008.</li> </ul>		X

#### Unaudited supplementary schedules

49. The supplementary information set out on pages 25 to 31 of the financial statements does not form part of the financial statements and is presented as additional information. I have not audited this schedule and accordingly I do not express an opinion thereon.

#### OTHER REPORTING RESPONSIBILITIES

##### Reporting on performance information

50. I was engaged to review the performance information.

##### Responsibility of the accounting officer for the performance information

51. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the MSA.

### **Responsibility of the Auditor-General**

52. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.
53. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
54. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

### **Audit findings**

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

##### **No reporting of performance information**

55. The municipality has not reported performance against predetermined objectives, as required by section 41 of MSA.

##### **Performance management system**

56. A performance management system in terms of section 38 of the MSA was not developed by the municipality.

##### **No reporting on performance information**

57. The annual report of the municipality did not include the annual performance report of the municipality in terms of section 46 of the MSA, as required by section 121(3)(c) of the MFMA.

##### **Integrated development plan**

58. A revised IDP for 2008 was adopted by the council on 31 May 2007 and the revised IDP for 2009 was adopted by the council on 27 June 2008. Evidence of the processes and procedures that must be followed and performed in terms of sections 28, 29 and 30 of the MSA could not provided by management.
59. No input and outcome indicators were included in the IDP as required by section 41(1)(a) of the MSA and regulation 9(1)(a) of the Municipal Planning and Performance Management Regulations, 2001.
60. The key performance indicators set by the municipality did not include the general key performance indicators applicable to the municipality, as prescribed in terms of section 43(1) of the MSA.

##### **Service delivery budget implementation plan**

61. The Municipality's Service Delivery and Budget Implementation Plan (SDBIP) was not approved by the mayor within 28 days after the approval of the budget, as required by section 53(1)(c) of the MFMA. No evidence could be obtained of any report to inform the MEC for Finance of the delay of the approval of the SDBIP.