

REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE ANNUAL FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE MALETSWAI MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009

REPORT ON THE ANNUAL FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying annual financial statements and review the performance information of the Maletswai Municipality which comprise the statement of financial position as at 30 June 2009 and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 96 to 117.

The accounting officer's responsibility for the annual financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these annual financial statements in accordance with the entity specific basis of accounting, as set out in the accounting policy note 1.1 to the annual financial statements and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) 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 error or fraud.

The Auditor-General's responsibility

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), my responsibility is to express an opinion on the annual financial statements based on conducting 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 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

Funds and reserves

Accumulated and various statutory funds

4. There are insufficient concomitant assets (cash and investments) to support the existence of the accumulated and various statutory funds. The concomitant assets are undervalued by R2.9 million. The municipality'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 accuracy and existence of the concomitant assets disclosed in the annual financial statements.

Trust funds

5. I was unable to obtain the contracts or service level agreements necessary to determine who has rights to the housing funds as disclosed in Appendix A of the annual financial statements due to limitations placed on the scope of my work by the entity. Should the rights and obligations not accrue to the municipality, the trust funds would be overstated by R6.6 million. The municipality's records did not permit the application of alternative audit procedures regarding the rights to the housing funds. Consequently I could not obtain all the information

and explanations I considered necessary to satisfy myself as to whom has rights to the housing fund.

Accumulated surplus

6. The accumulated surplus account and deficit per the income statement is understated by a net amount of R4.1 million and inadequate disclosure of the income and expenditure transactions making up this net amount has been made in the annual financial statements. This understatement has arisen due to income and expenditure transactions being processed through the accumulated surplus account instead of being allocated to a specific vote in the income statement. Only the net surplus/deficit for the year should be processed through the accumulated surplus account.

Trust funds, grant expenditure and grant revenue

7. Grant expenditure incurred in the 2007/2008 financial year was recorded in the 2008/2009 financial year which resulted in an overstatement of R314 736 in the accumulated deficit account balance. A register of grants and subsidies received from provincial and national government is not maintained. Supporting documentation could also not be provided by management for expenditure incurred against grants totalling R3.1 million and the municipality's records did not permit the application of alternative audit procedures. In addition to this input VAT on expenditure incurred against grants totalling R112 861 was incorrectly claimed.
8. Consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself that expenditure incurred against grants and the related input VAT claimed was accurately recorded in the municipality's accounting records and that such grant expenditure was valid.

Consumer deposits

9. A consumer deposit listing supporting the amount of R3.5 million recorded in the annual financial statements could not be produced by the municipality's accounting system. The municipality's records did not permit the application of alternative audit procedures and consequently, I was not able to determine whether any adjustments might be necessary to the amounts shown in the financial statements for consumer deposits.

Fixed assets

10. Certain movable and immovable assets selected for verification against the fixed asset register could not be agreed to the asset register and certain assets selected from the asset register could not be physically verified. Some assets verified were no longer in a condition appropriate for use.
11. Supporting documentation could not be provided by management for fixed asset additions (excluding capital expenditure ex grants) amounting to R12.3 million nor fixed asset additions (capital expenditure ex grants) amounting to R18.1 million and for disposals amounting to R1.9 million. A rateable valuation reconciliation for all properties owned by the municipality could also not be provided nor a listing of projects in progress and completed by the municipality during the 2008/2009 financial year.
12. The municipality's records did not permit the application of alternative audit procedures. Consequently, I was not able to determine whether any adjustments might be necessary to the original cost of fixed assets amounting to R126.6 million as disclosed in Appendix C to the annual financial statements.

Inventory

13. I did not attend the year end game count performed by the management as I was not informed of the date and time of the count. Furthermore, the method used by the municipality

for counting the game was inappropriate and cannot be relied upon to ensure that all game was included and accurately counted. The municipality's records did not permit the application of alternative audit procedures.

14. In accordance with Section 28.1 of the Municipality's Asset Management Policy, accounting for biological assets should take place in accordance with the requirements of International Accounting Standards 41 - Agriculture (IAS41). In accordance with IAS 41, biological assets which include game should be classified as such and recorded at its fair value. The municipality classified its game as inventory per note 8 to the annual financial statements.
15. Consequently, I was not able to determine whether any adjustments might be necessary to the game inventory amounting to R903 050 as disclosed in note 8 to the annual financial statements.

Trade debtors, other debtors and provision for the impairment of trade and other debtors

16. The trade debtor's balance of R6.5 million was overstated by R490 272 when compared with the balance recorded in the debtor's age analysis and the debtor's sub-ledger. The ageing categories in the age analysis did not cast and the ageing per the age analysis for each individual debtor did not agree to the ageing per the individual debtor's statements.
17. Included in the other debtor's balance in note 9 to the annual financial statements is an amount of R8.7 million shown as being owed by Ukhahlamba District Municipality. The district municipality is disputing this amount, indicating an overstatement of R5.9 million. No sufficient appropriate evidence supporting these differences could be obtained from management.
18. The provision for the impairment of trade and other debtors of R1.6 million was not supported by an accurate assessment made by management of the recoverability of the trade and other debtors. The collectability of individual trade debtors could not be assessed as the individual debtor account details had not been amended for property transfers by management. Furthermore supporting documentation could not be obtained from management for the recoverability of R712 057 of other debtors nor the validity and recoverability of R1.9 million included in other debtors and therefore I could not determine whether these amounts should be provided for. The municipality's records did not permit the application of alternative audit procedures.
19. Consequently, I was not able to determine whether any adjustments might be necessary to the amounts shown in note 9 to the annual financial statements for trade and other debtors.

Bank and cash

20. The bank and cash balances were overstated by R3.1 million when compared to the cash balances as confirmed by the relevant banking institutions. The municipality's records did not permit the application of alternative audit procedures.
21. Consequently, I was not able to determine whether any adjustments might be necessary to the amounts shown in note 19 to the annual financial statements for bank and cash.

Provisions

Provision for restoration of landfill sites

22. As required under section 28 of the National Environmental Management Act 1998 (Act No. 107 of 1998) and section 20 of the Environmental Conservation Act, 1989 (Ac No.73 of 1989) (ECA), the municipality is required to rehabilitate land fill sites. The municipality has not disclosed in the annual financial statements a provision of the estimated costs required to rehabilitate the landfill sites at Aliwal North and Jamestown. I have not been able to obtain sufficient appropriate evidence to assess the quantum of the required provision. Consequently, I did not obtain all the information and explanations I considered necessary to

satisfy myself as to the financial impact of this non-disclosure on the annual financial statements.

Provisions

Leave pay provision

23. Differences were identified between the attendance register, leave register and the manual leave forms. The leave pay provision movement of R1.9 million could not be reconciled to the amount expensed in the general ledger by R927 987.
24. Consequently, I was not able to determine whether any adjustments might be necessary to the leave pay provision as disclosed in note 10 to the annual financial statements.

Creditors

25. The current year audit fee of R664 869 and the legal fees of R81 219 have not been provided for in the financial records of the municipality and as a result general expenses and payables are understated by R746 088. Supporting documentation could also not be obtained from management for payments made subsequent to year end totalling R7.9 million to determine whether these expenses should have been accrued for, nor could I obtain creditors reconciliations in support of creditors amounting to R3.3 million. Consequently, I was not able to determine whether any adjustments might be necessary to trade creditors amounting to R7.4 million as disclosed in note 11 to the annual financial statements.
26. As indicated in Appendix G to the annual financial statements, the municipality has disclosed contingent liabilities amounting to R1.2 million. However, these contingent liabilities do not satisfy the recognition criteria for a contingent liability and should in fact be disclosed as a current liability in the annual financial statements. Consequently the accumulated deficit and creditors are understated by R1.2 million respectively.

Revenue

27. The municipality does not have an adequate system of internal control to ensure that all revenue is recorded in the accounting records of the municipality. Furthermore, sufficient adequate supporting documentation could not be provided by management to support the revenue recorded in the annual financial statements. The municipality's records did not permit the application of alternative audit procedures.
28. Consequently, I was not able to determine whether any adjustments might be necessary to revenue of R84.5 million as disclosed in appendix D to the annual financial statements.
29. The following additional findings relating to electricity revenue and agency fees were noted:
30. As disclosed in Appendix F to the annual financial statements, the municipality lost 24 760 877 units of electricity or 39.31% of the total units purchased due to distribution losses not been monitored closely in the current financial year. This loss has arisen, as the technical department had not adopted procedures to ensure that distribution losses were kept within the required norm and only susceptible to inherent risks. Losses in excess of 12% are regarded as non-technical losses and could have been avoided. The 17 202 719 units lost (over and above the non-technical losses at 12%) results in an understatement of revenue. Electricity revenue as recorded in appendix D to the annual financial statements is therefore understated by R13 million. It is not possible to ascertain the potential understatement of trade debtors as I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the recoverability of these debtors had the revenue been appropriately billed and recognised.
31. No supporting documentation could be obtained from management for the agency fees billed to Ukhahlamba District municipality. The contract between the municipality and Ukhahlamba

District municipality does not stipulate the amount of agency fees payable by the district municipality.

Expenditure

32. Adequate supporting documentation for general expenditure amounting to R656 126 and a list of all purchases returns, payments, orders and goods received vouchers for the year, as well as the corresponding transaction dates could not be provided.
33. Consequently, I was not able to determine whether any adjustments might be necessary to other general expenses of R18.5 million included in appendix D of the annual financial statements.

Bad debts written off expense

34. Detailed supporting documentation for bad debts written off could not be obtained from management. The bad debts written off expense and the current year movement in the provision for bad debts was not charged to the provision for bad debts account and the bad debts written off account respectively but was instead incorrectly charged against the Accumulated Surplus account.
35. Consequently, I was not able to determine whether any adjustments might be necessary to the bad debts written off expense of R9.3 million.

Amounts charged out

36. Amounts charged out represent costs incurred by the finance department which is charged out, inclusive of a 6% mark up on the prior year charge, to other municipal departments. No further supporting documentation or agreements could be provided in order to substantiate this charge. The municipality's records did not permit the application of alternative audit procedures.
37. Consequently, I was not able to determine whether any adjustments might be necessary to the amounts charged out as disclosed in appendix D of the annual financial statements of R1.9 million.

VAT

38. A VAT apportionment ratio should be used to calculate VAT whereas the municipality is currently claiming VAT at 14%.
39. VAT has not been disclosed separately in the notes to the annual financial statements. This is a material non-disclosure deficiency.
40. Supporting documentation could not be provided by management for revenue earned on license, fines and commissions. The municipality's records did not permit the application of alternative audit procedures. Consequently I was not able to determine whether any adjustments might be necessary to the VAT receivable amounting to R2.9 million.

Disclosure

Accumulated surplus

41. In accordance with the requirements of IMFO, a general description of all prior year adjustments should be included in the notes to the annual financial statements
42. Prior year adjustments amounting to R474 686 were made against the accumulated surplus account during the current financial year, however, no disclosure thereon was included in the notes to the annual financial statements.

Capital commitments

43. Inadequate disclosure has been made regarding capital commitments existing at the financial year end. Only two projects have been disclosed as capital commitments in the annual financial statements whereas a number of capital projects in progress at the financial year end were identified. Insufficient information was provided on all capital projects in progress and thus it was not possible to quantify all capital commitments that have not been disclosed.

Contingent liabilities

44. Section 125 (1)(c) of the Municipal Finance Management Act states that the notes to the annual financial statements of the municipality must disclose particulars of any contingent liabilities of the municipality as at the end of the financial year. Contingent liabilities amounting to R1.2 million should not have been disclosed in Appendix G as the litigation has been settled whereas a contingent liability relating to the application of eleven liquor license holders to nullify the by-laws has not been disclosed in Appendix G as the Municipal Council does not have an estimate of the possible exposure to this contingent liability.

45. The level of disclosure of contingent liabilities per the annual financial statements is not adequate to provide users of the annual financial statements with meaningful insights into their nature, severity and likelihood of the contingent liability materialising.

Investments

46. No disclosure has been made in the notes to the annual financial statements relating to investments totalling R1.7 million that were ceded to the Development Bank of South Africa (DBSA) as security for the DBSA loan. Furthermore, the investments balance per note 6 to the annual financial statements has not been split between the current and non-current portion of the investments.

Fixed Assets

47. There is a difference of R8.9 million between the amount disclosed as contributions to capital expenditure from current income in appendix C of the annual financial statements and the amount disclosed as contributions to fixed assets in appendix D. Under the IMFO code of accounting practice these amounts are required to balance. Management could not provide a comprehensive explanation for this variance.

48. There is also a difference of R3.4 million between the fixed asset balance of R9.1 million as disclosed in appendix C of the annual financial statements and external/internal loans outstanding balance as per appendix B. Under the IMFO code of accounting practice these amounts are required to balance. Management could not provide a comprehensive explanation for this variance.

Inadequate disclosure of non compliance with Municipal Finance Management Act

49. No disclosure has been made in the notes to the annual financial statements of the particulars of non-compliance with the MFMA.

50. Commitments and compliance with the Municipal Finance Management Act and the Supply Chain Management Regulations

51. Supporting documentation relating to the tender process could not be provided by management and consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself as to the municipality's compliance with the Municipal Finance Management Act and the Supply Chain Management Regulations.

Unauthorised, irregular or fruitless and wasteful expenditure as well as material losses through criminal conduct

Fruitless and wasteful expenditure

52. Fruitless and wasteful expenditure amounting to R203 492 was identified during the performance of audit work which was not disclosed in the annual financial statements. The amount was in relation to interest on bank overdraft and creditors, damages paid for incorrect impounding of vehicles and licence fees and penalties on deregistered vehicles.

Irregular expenditure

53. Supply Chain Management Regulations 12, 16 and 17 were not complied with for expenditure totalling R585 778 as a result of not obtaining the minimum number of quotes for transaction values exceeding R2 000 up to R200 000. Tax clearance certificates for expenditure totalling R665 232 were also not obtained from management as required by section 13 of the regulations.

54. This expenditure constitutes irregular expenditure as defined in section 1 of the MFMA which has not been disclosed in the annual financial statements as required by section 125(2)(d)(i) of the MFMA. Furthermore, no attempt was made to recover the irregular expenditure as required by section 32 (2) of the MFMA nor has it been certified as irrecoverable by Council in terms of section 32 (2) (b).

Unauthorised expenditure

55. Overspending of R1.7 million relating to certain votes in the approved budget was identified as unauthorised expenditure.

56. Section 50(a) of the MFMA has not been complied with as the municipality did not have an approved budget for guarantees issued of R1.8 million in respect of the DBSA Loan. No disclosure was made of the guarantees in the annual financial statements due to the fact that management does not have an adequate understanding of the disclosure requirements in terms of IMFO.

Corresponding figures in the annual financial statements

57. The audit report on the financial statements for the year ended 30 June 2008 contained an adverse opinion as a result of material misstatements in the prior year with respect to bank and cash, fixed assets, debtors, revenue and the leave provision. Management has not corrected the misstatements identified and therefore the corresponding figures are still misstated.

Disclaimer of opinion

58. 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 annual financial statements of Maletswai Municipality as at 30 June 2009. Accordingly, I do not express an opinion on these annual financial statements.

Emphasis of matter

I draw attention to the following matter on which I do not express a disclaimer of opinion:

Disclosure

Accounting policies

59. IMFO requires that all accounting policies which are judged to be material or critical to an understanding of the annual financial statements are to be disclosed by way of a note in the annual financial statements.

60. The municipality has omitted regulated disclosure on assessment rates revenue and the relevant income recognition policy which is required in terms of IMFO.

Other matters

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

Material inconsistencies in other information included in the annual report

61. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the annual financial statements.

Unaudited supplementary schedules

62. The supplementary information set out in Appendix B, C, E and F and disclosure on page 25 2(d)(ii) is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

Non-compliance with applicable legislation

Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA)

63. Section 166 (2)(a) of the MFMA has not been complied with as council does not evaluate the effectiveness of the audit committee, the audit committee does not engage with the external auditors and is not up to date with audit issues that may arise. None of the members of the audit committee are experts in performance management.

64. The mayor did not table the budget at least 10 months before the start of the financial year as is required in terms of section 21(1b) of the MFMA nor did he table the budget at a Council meeting at least 90 days before the start of the budget year as required in terms of section 15(b) of the MFMA. The annual budget as approved by the Council did not contain a statement containing any other information as required by section 215(3) of the Constitution or a projection of cash flows per revenue source, broken down per month or a resolution imposing municipal tax and setting municipal tariffs as may be required for the budget year as required in terms of section 17 of the MFMA.

65. The adjustments budget was not accompanied by an explanation of how the adjustments budget affects the annual budget, a motivation of material changes to the annual budget, or an explanation of the impact of any increased spending on the annual budget and the annual budgets for the next two financial years as required in terms of section 28 of the MFMA. The municipality could also not provide documentary evidence as required in terms of section 29 of the MFMA that all unforeseen and unavoidable expenditure was incurred in accordance with a framework. The expenditure may not exceed a prescribed percentage of the approved annual budget and if so, such expenditure should be reported by the Mayor to the Council at its next meeting.

66. Section 28(5) of the MFMA has not been complied with as the final adjusted budget for the 2008/2009 financial year was approved one month before the financial year end with no clear justification as to why adjustments were required.

67. Section 65(2)(e) of the MFMA has not been complied with as instances were identified where payments were not made to suppliers within 30 days of invoice date.

68. The municipality did not perform an annual fixed asset count as required by the Municipality's Supply Chain Management Policy and thereby failed to comply with section 78(1)(e) of the MFMA.

Environmental Conservation Act No 73 of 1989

69. Section 20 of the Environmental Conservation Act has not been complied with as the municipality does not have a permit issued by the Minister of Water Affairs to operate the Jamestown landfill sites.

Supply Chain Management Regulations

70. The awarding of tender contracts was not in terms of Regulation 5(2)(a) which requires that the power to make final awards should be delegated to various responsibility levels according to the

value of the award. No evidence was provided that suggests that the regulation had been complied with.

71. The reports on final awards made during the month were not submitted within 5 days of the end of each month to the municipal manager as required in terms of regulation 5(4).
72. The accounting officer did not submit to the council, within 30 days after the end of the financial year, a report on the implementation of the Supply Chain Management policy of the municipality and all its municipal entities, as required in terms of regulation 6(a).
73. The accounting officer did not submit to the mayor, within 10 days after the end of every quarter, a report on the implementation of the Supply Chain Management policy of the municipality as required in terms of regulation 6(c).
74. The reports per regulations 6(a) and 6(c) were not made public in accordance with section 21A of the Municipal Systems Act as required in terms of regulation 6(d).
75. The Supply Chain Management policy did not provide measures for the combating of abuse of the Supply Chain Management System or enabled the accounting officer to investigate allegations of failure to comply with the Supply Chain Management Policy as required in terms of regulation 38(1)(b).

Basic Conditions of employment Act (BCEA)

76. Employees were allowed to work more than 10 hours of overtime per week which is in contravention of section 10(1) of the BCEA.

Eastern Cape Liquor Act

77. Regulation 6(2) of the Liquor by-laws and Section 44 of the Eastern Cape Liquor Act 2003 have not been complied with as the municipality did not allocate any resources for the enforcement of the liquor by-laws and no report was submitted to the liquor board.

Collective agreement

78. A number of employees accumulated more than 48 days leave which is the maximum number of days that can be accumulated.

Governance framework

79. The governance principles that impact the auditor's opinion on the annual financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below:

Internal control deficiencies

80. 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 deficiencies 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. (The number listed per component can be followed with the legend below the table.) In some instances deficiencies exist in more than one internal control component.

Par. no.	Basis for disclaimer of opinion	CE	RA	CA	IC	M
1.1	Accumulated and various statutory funds			X		
1.2	Trust funds	X		X		

2.	Accumulated surplus			X		
3.	Trust funds, grant expenditure and grant revenue	X		X		
4.	Consumer deposits			X	X	
5.	Fixed assets	X		X	X	
6.	Inventory	X		X		
7	Trade debtors, other debtors and provision for the impairment of trade and other debtors			X	X	X
8	Bank and cash			X		X
9.1	Provisions – Provision for restoration of landfill sites	X			X	
9.2	Provisions – Leave pay provision				X	
10	Creditors	X		X		
10	Contingent liabilities	X				
11.	Revenue	X		X	X	X
12.	Expenditure			X		
13	Bad debts written off expense			X		
14	Amounts charged out			X		
15	VAT			X	X	
16	Disclosure – Accumulated surplus			X		
16	Disclosure – Capital commitments	X				
16	Disclosure – Contingent liabilities	X				
16	Disclosure – Investments			X		
16	Disclosure - Fixed assets			X		
16	Disclosure – Commitments and compliance with MFMA and the Supply Chain Management Regulations	X				
17.1	Fruitless and wasteful expenditure	X		X		
17.2	Irregular expenditure	X		X		
17.3	Unauthorised expenditure	X		X		

Conclusion on the governance framework based on internal control deficiencies

81. Management did not ensure that there are sufficient assets to support the accumulated funds balance. The CFO does not exercise oversight responsibility over financial reporting. Management does not have proper controls in place to ensure that there are votes for all income and expenditure to be allocated against. Management was not committed to obtaining the necessary supporting documents and did not ensure that expenses were recorded in the correct period. The system was not properly implemented which caused the lack of supporting documentation. Management did not apply the applicable standards to ensure that inventory is correctly disclosed. Management did not implement a proper filing system to ensure that supporting documentation was available and they did not ensure that proper reconciliations were performed. Management does not have a process in place to ensure compliance with all the applicable accounting

standards. Management does not have proper controls in place to account for the movement in leave provision. Management did not ensure that they identified all the expenses to be accrued for at year end. Management does not have sufficient understanding of the definition and recognition criteria of a contingent liability. The municipality does not have an adequate system of internal control for the completeness of revenue. Management does not have an adequate understanding of the accounting systems to obtain the necessary reports. Management does not have an adequate system of internal control to ensure that the bad debts written off expense and the current year movement in the provision are correct. Management does not have an adequate understanding of the accounting system to ensure that the correct VAT is calculated. Management does not have sufficient understanding of the disclosure requirements in terms of IMFO and the MFMA. Management does not ensure compliance with management's supply chain management policy, nor do they have sufficient controls in place to ensure that irregular expenditure is identified and adequately disclosed. Management does not have an adequate system of internal controls in place to ensure that all misstatements identified by the external auditors are corrected.

Legend	
CE = Control environment	
The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting.	1
Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting.	2
Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel.	3
Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting.	4
The accounting officer/accounting authority does not exercise oversight responsibility over financial reporting and internal control.	5
Management's philosophy and operating style do not promote effective control over financial reporting.	6
The entity does not have individuals competent in financial reporting and related matters.	7
RA = Risk assessment	
Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting.	1
The entity does not identify risks to the achievement of financial reporting objectives.	2
The entity does not analyse the likelihood and impact of the risks identified.	3
The entity does not determine a risk strategy/action plan to manage identified risks.	4
The potential for material misstatement due to fraud is not considered.	5
CA = Control activities	
There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation.	1
General information technology controls have not been designed to maintain the integrity of the information system and the security of the data.	2
Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.	3
Actions are not taken to address risks to the achievement of financial reporting objectives.	4
Control activities are not selected and developed to mitigate risks over financial reporting.	5
Policies and procedures related to financial reporting are not established and communicated.	6
Realistic targets are not set for financial performance measures, which are in turn not	7

linked to an effective reward system.	
IC = Information and communication	
Pertinent information is not identified and captured in a form and time frame to support financial reporting.	1
Information required to implement internal control is not available to personnel to enable internal control responsibilities.	2
Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel.	3
M = Monitoring	
Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.	1
Neither reviews by internal audit or the audit committee nor self -assessments are evident.	2
Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.	3

Key governance responsibilities

82. 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 key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.		X
Quality of annual financial statements and related management information			
2.	The annual financial statements were not subject to any material amendments resulting from the audit.		X
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.		X

Timeliness of annual financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines [section 126 of the MFMA].	X	
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.		X
Development and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	• The Municipality had an audit committee in operation throughout the financial year.	X	
	• The audit committee operates in accordance with approved,		X

	written terms of reference.		
	<ul style="list-style-type: none"> The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA. 		X
7.	Internal audit		
	<ul style="list-style-type: none"> The Municipality had an internal audit function in operation throughout the financial year. 	X	
	<ul style="list-style-type: none"> The internal audit function operates in terms of an approved internal audit plan. 	X	
	<ul style="list-style-type: none"> The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA. 		X
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		X
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		X
No.	Matter	Y	N
10.	The information systems were appropriate to facilitate the preparation of the annual financial statements.		X
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 95(c)(i) of the MFMA.	X	
12.	Delegations of responsibility are in place, as set out in section 106 of the MFMA.		X
Follow-up audit findings			
13.	The prior year audit findings have been substantially addressed.		X

Issues relating to the reporting of performance information			
14.	SCOPA/Oversight resolutions have been substantially implemented.		N/A
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		X
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		X
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Maletswai Municipality against its mandate, predetermined objectives, outputs, indicators and targets in terms of section 87 of the MFMA.		X
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and		X

approval by those charged with governance.		
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Conclusion on the governance framework based on other key governance requirements

83. Significant delays were experienced during the execution of our audit due to the municipality not providing documentation and explanations required for audit purposes. A structured process was followed in an attempt to obtain the documentation and explanations. Management was regularly informed of the delays. Most documentation and explanations required were only submitted after several requests. (This root cause relates to point 1).
84. The financial statements were subject to material adjustment as a result of a lack of controls being in place to ensure that complete, valid and accurate information is captured into the financial system. There is a lack of an adequate documentation management system to ensure easy retrieval of documentation. Most of the adjustments made were as a result of a lack of monitoring by management in ensuring that their policies and procedures are being adhered to. (This root cause relates to point 2).
85. Key officials were not available throughout the audit processes to respond to audit queries and to provide us with information to which only they had access to; thus resulting in excessive delays in the audit process. (This root cause relates to points 3 and 5).
86. The significant deficiencies in the design and implementation of internal control in respect of financial and risk management were attributed to a lack of approved and implemented policies being in place for the whole of the year under review. (This root cause relates to point 6).
87. The audit committee does not have a sufficient understanding of their responsibilities in terms of the MFMA. (This root cause relates to point 6).
88. The internal audit committee does not have a sufficient understanding of their responsibilities in terms of the MFMA. (This root cause relates to point 7).
89. The significant deficiencies in the design and implementation of internal control in respect of financial and risk management were attributed to a lack of approved and implemented policies being in place for the whole year under review and to key internal controls and processes that were either not in place or not functioning as intended. (This root cause relates to point 8).
90. The significant deficiencies in the design and implementation of internal control in respect of the compliance with applicable laws and regulations were attributed to a lack of implemented controls not being adhered to and a lack of monitoring and supervision by management. Management has not taken sufficient action to clear all audit findings. (This root cause relates to point 9).
91. The information system was not appropriate and management does not have an adequate understanding of the information system. (This root cause relates to point 10).
92. Management did not appropriately delegate their responsibilities in terms of the MFMA. (This root cause relates to point 12).
93. Not all the issues reported in the prior year audit and management report were addressed as these issues were also reported on in the 2008/2009 audit. (This root cause relates to point 13).
94. The reliability of the source information and systems utilised to gather the information was not found to be reliable. (This root cause relates to point 15).
95. There are no documented and approved policies and procedures in place for the reporting of performance information. There is also a lack of monitoring by management to ensure that their policies and procedures are being adhered to. (This root cause relates to point 16 and 17).
96. The mid year performance bonus assessment was not submitted for audit purposes. (This root cause relates to point 18).

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

97. I have reviewed the performance information as set out on pages xx to xx

The accounting officer's responsibility for the performance information

98. 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 Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

The Auditor-General's responsibility

99. 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 read in conjunction with section 45 of the Municipal Systems Act, No. 32 of 2000.

100. 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.

101. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings on performance information

Non-compliance with regulatory requirements

Existence and functioning of a performance audit committee

102. The municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee, as required by regulation 14(2) of the Municipal Planning and Performance Management Regulations, 2001.

Internal auditing of performance measurements

103. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required in terms of section 45 of the Municipal Systems Act.

104. The internal audit processes and procedures did not include assessments of the extent to which the municipality's performance measurements were reliable in measuring the performance of the municipality on key as well as general performance indicators.

Lack of adoption of a performance management system

105. The municipality did not adopt a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including the roles of the different role players, as required in terms of regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

Lack of reporting on all predetermined objectives in annual report

106. The municipality has not reported on its performance with regard to the developed road maintenance plan indicator as per the approved integrated development plan in the service delivery implementation plan and the annual performance report.

Inconsistently reported performance information

107. Discrepancies were noted between the information contained in the service delivery implementation plan and the annual performance report.
108. Discrepancies were also noted between the information contained in the integrated development plan and the annual performance report.

Reported performance information not reliable

109. The source evidence provided to support the reported performance information with regards to the target for electrifying all outstanding households in Joes Gqabi as disclosed on page 21 of the annual performance report did not adequately support the validity and completeness of the facts.

No performance information system for Mthombo Sediba Development Agency

110. Section 93B of the Municipal Systems Act has not been complied with as the municipality did not review or monitor the performance of Mthombo Sediba Development Agency during the current financial year and the development agency did not submit an annual performance report to the municipality.
111. Section 87(2) and 87(3) of the MFMA has not been complied with as there was no audit evidence to show that the municipality had considered the proposed budget of the development agency and had assessed the development agency's priorities and objectives. There was also no tabling of the proposed budget for the development agency in the council when the annual budget of the municipality for the current financial year was tabled.
112. Section 87(11)(g)(ii) of the MFMA has not been complied with as no monthly management reports, explaining material variances from the service delivery agreement and the business plan, were submitted by the development agency to the municipality during the current financial year.
113. Section 88 of the MFMA has not been complied as the development agency did not submit a report on its performance to the municipality before the 20 January 2009.

APPRECIATION

The assistance rendered by the staff of the Maletswai Municipality during the audit is sincerely appreciated.

Auditor-General

East London

30 November 2009



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence