

internal policies and procedures regarding the processes pertaining to the reporting of performance information.

Consistency

Reported objectives not consistent with planned objectives

56. Section 41(c) of the MSA requires that the Integrated Development Plan (IDP) should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 32% of the reported objectives of the parent municipality are not consistent with the objectives as per the approved IDP. This is due to a lack of proper review and monitoring to ensure that the Service Delivery Budget Implementation Plan (SDBIP) and the IDP are consistent and fully aligned.

Measurability

Performance targets not measurable

57. The National Treasury *Framework for managing programme performance information* (FMPPI) requires that performance targets be measurable. The required performance could not be measured for a total of 25% of the parent municipality's targets relevant to *the service delivery excellence within and around Mangaung Metropolitan Municipality and stimulating of our integrated and sustainable economic development prospects* objectives. This was due to the fact that management did not capacitate the IDP office or implement adequate internal control measures to ensure that the criteria as per the FMPPI were applied consistently.

Performance indicators not well defined

58. The FMPPI requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 36% of the parent municipality's indicators relevant to *the service delivery excellence within and around Mangaung Metropolitan Municipality and stimulating of our integrated and sustainable economic development prospects* objectives were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management did not capacitate the IDP office or implement adequate internal control measures to ensure that the criteria as per the FMPPI were applied consistently.

Reliability of information

Validity

Reported performance not valid

59. The FMPPI requires that processes and systems which produce the indicator should be verifiable. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the validity of the actual reported performance relevant to 73% of *the service delivery excellence within and around Mangaung Metropolitan Municipality and stimulating of our integrated and sustainable economic development prospects* objectives. This was due to the parent municipality's records not permitting the application of alternative audit procedures.

Additional matter

In addition to the above material findings, I draw attention to the following matters.

Achievement of planned targets

60. Of the total number of 169 targets planned for the parent municipality for the year, 69 were not achieved during the year under review. This represents 40,83% of total planned targets

that were not achieved during the year under review. This was as a result of the municipality not considering relevant systems and evidential requirements during the annual strategic planning process.

Compliance with laws and regulations

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

Strategic planning and performance management

62. The parent municipality did not ensure that annual performance objectives and indicators are established by agreement with its municipal entity and included in its municipal entity's multi-year business plan, as required by section 93B(a) of the MSA.
63. The parent municipality did not afford the local community at least 21 days to comment on the final draft of its IDP before the plan was submitted to the council for adoption, as required by regulation 15(3) of the Municipal Planning and Performance Management Regulations.
64. The parent municipality did not establish a performance management system in line with the priorities, objectives, indicators and targets contained in its IDP, as required by section 38(a) of the MSA and Municipal Planning and Performance Management Regulation 7(2)(c).
65. The performance of Centlec Ltd (SOC) was not monitored and annually reviewed as part of the annual budgetary process, as required by section 93B(b) of the MSA.
66. Sufficient appropriate audit evidence could not be obtained that the accounting officer of the municipal entity submitted the results of the assessment on the performance of the entity during the first half of the financial year to the board of directors and the parent municipality, as required by section 88(1)(b) of the MFMA.

Budgets

67. The parent municipality and municipal entity incurred expenditure that was in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.
68. Sufficient appropriate audit evidence could not be obtained that the accounting officer of the municipal entity submitted the monthly budget statements to the accounting officer of the parent municipality, as required by section 87(11) of the MFMA.

Annual financial statements and annual report

69. The financial statements submitted for auditing by the parent municipality and its municipal entity were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements in non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.
70. The accounting officer of the parent municipality did not submit consolidated annual financial statements for auditing within three months after the end of the financial year, as required by section 126(1)(b) of the MFMA.
71. The accounting officer of the municipal entity did not submit the financial statements for auditing within two months after the end of the financial year, as required by section 126(2) of the MFMA.

Audit committee

72. The audit committee did not timeously advise the council on matters relating to performance management and performance evaluation, as required by section 166(2)(a) of the MFMA.
73. The audit committee did not timeously submit an audit report on the review of the performance management system to the council, as required by Municipal Planning and Performance Management Regulation 14(4)(a)(iii).
74. The audit committee did not effectively discharge its mandate as required by section 166(2) of the MFMA.
75. The municipal entity did not appoint and budget for a performance audit committee nor was another audit committee utilised as the performance audit committee as required by Municipal Planning and Performance Management Regulation 14.

Internal audit

76. The internal audit unit of the parent municipality did not function as required by section 165(2) of the MFMA in that it did not advise the accounting officer and report to the audit committee on matters relating to loss control.
77. The internal audit unit of the parent municipality did not assess the functionality of the performance management system and whether the performance management system complied with the requirements of the MSA and also did not adequately assess the extent to which the performance measurements were reliable in measuring the performance of the municipality on key and general performance indicators, as required by Municipal Planning and Performance Management Regulation 14(1)(b)(i)(ii)(iii).
78. The internal audit unit of the parent municipality did not audit the performance measurements on a continuous basis and did not submit quarterly reports on their audits to the municipal manager and the performance audit committee, as required by Municipal Planning and Performance Management Regulation 14(1)(c).

Procurement and contract management

79. Goods and services with a transaction value of between R10 000 and R200 000 were procured by the municipal entity without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulations 12(1)b and 16(a).
80. In seven instances sufficient appropriate audit evidence could not be obtained from the parent municipality that goods and services with a transaction value of below R200 000 were procured by obtaining the required price quotations, as required by SCM regulation 17(a) and (c).
81. Quotations were accepted by the parent municipality and the municipal entity from prospective providers who are not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy, in contravention of SCM regulations 14(1)(b), 16(a),(b) and 17(b).
82. The prospective providers lists for the parent municipality and municipal entity for procuring goods and services through quotations were not updated at least quarterly to include new suppliers that qualify for listing and prospective providers were not invited to apply for such listing at least once a year as per the requirements of SCM regulation 14(1)(a)(ii) and 14(2).
83. The parent municipality failed to obtain independence certificates, which led to awards being made to providers who are persons in service of other state institutions, in contravention of SCM regulation 44. In addition, the municipal entity made awards to providers whose directors/principal shareholders are persons in the service of other state institutions in contravention of the requirements of SCM regulations 44. Furthermore, the municipal entity's provider failed to declare that he/she is in the service of the state as required by SCM regulation 13(c).

84. Contrary to the requirements of section 105 of the MFMA, the municipal entity did not take all reasonable steps to ensure that any irregular, fruitless and wasteful expenditure and other losses were prevented. In addition, section 111 of the MFMA and section 2(1) of the SCM regulations were not complied with as the municipal entity did not implement a SCM policy, which resulted in the incurring of irregular, fruitless and wasteful expenditure for the municipal entity.
85. Contrary to the requirements of SCM regulation 19, the municipal entity did not always procure goods and services of transactional value above R200 000 through a competitive bidding process.
86. The bid specification committee of the municipal entity was not functional throughout the financial year as required by SCM regulation 27(3).
87. Bids were evaluated by the bid evaluation committees of the municipal entity, which did not consist of officials from the departments requiring the goods or services and at least one SCM practitioner of the entity, as per the requirements of SCM regulation 28(2).
88. Awards were made by the municipal entity to providers whose tax matters had not been declared by the South African Revenue Services to be in order as required by SCM regulation 43.

Human resource management and compensation start here

89. The competencies of financial and SCM officials of the municipal entity and parent municipality were not assessed promptly in order to identify and address gaps in competency levels, as required by the Municipal Regulations on Minimum Competency Levels, regulations 8 and 13.
90. The parent municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and the relevant provincial treasury, as required by the Regulations on Minimum Competency Levels, regulation 14(2)(a).
91. The annual report of the parent municipality did not reflect information on compliance with prescribed minimum competencies, as required by the Regulations on Minimum Competency Levels, regulation 14(2)(b).
92. Contrary to the requirement of section 84 of the MFMA, key management positions of the municipal entity were not filled and remained vacant for the major part of the financial year.

Expenditure management

93. The accounting officers of the municipal entity and parent municipality did not take reasonable steps to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, as required by section 9(d) and section 62(1)(d) of the MFMA.
94. The accounting officer of the municipal entity did not take all reasonable steps to ensure that the entity had and maintained a management, accounting and information system which recognised expenditure when it was incurred or accounted for creditors of the municipal entity as required by section 99(2)(c) of the MFMA.
95. Contrary to the requirements of section 32(2) of the MFMA, the municipal entity did not have an investigation committee in place throughout the period to make recommendations to council for the recovery of irregular or fruitless and wasteful expenditure from the person liable for that expenditure.
96. Contrary to the requirements of section 99(2)(b) of the MFMA, the municipal entity did not make payments within the required 30 days from the receipt of an invoice, or such a period as prescribed for certain categories of expenditure.

Conditional grants

97. The parent municipality did not always within 30 days after the end of each quarter submit

quarterly reports to the transferring national officer and the National Treasury on municipal performance for the quarter against the targets stipulated in the infrastructure performance framework, as required by section 11(2)(c)(ii) of DoRA.

98. Contrary to the requirements of section 15(1) of DoRA, the municipal entity utilised conditional grants for purposes other than those stipulated for the respective grants.

Revenue management

99. Revenue received by the parent municipality and municipal entity was not always reconciled at least on a weekly basis, as required by sections 64(2)(h) and 98(a) of the MFMA.
100. An adequate management, accounting and information system was not in place at the parent municipality and municipal entity which accounted for debtors, as required by section 64(2)(e) and section 97(h) of the MFMA, respectively.

Asset management

101. The accounting officers of the parent municipality and municipal entity did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system that accounts for the assets of the municipality, as required by section 63(2)(a) and section 96(2)(a) of the MFMA, respectively.
102. The accounting officers of the parent municipality and municipal entity did not take all reasonable steps to ensure that the municipality had and maintained an effective system of internal control for assets, as required by section 63(2)(c) and section 96(2)(b) of the MFMA, respectively.
103. The right to manage a capital asset with a value in excess of R10 million was granted by the parent municipality without a public participation process, in contravention of Asset Transfer Regulation 34(1)(a) and 34(2).

Internal control

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

Leadership

105. Significant changes in the executive leadership team of the parent municipality during the latter part of the financial year resulted in the deliverables and time frames of the project to compile a GRAP-compliant immovable asset register not being adequately monitored. This resulted in this project not being completed in time to provide the chief financial officer with all the relevant information required for financial reporting purposes.
106. A high vacancy rate for technical resources in the infrastructure section of the parent municipality resulted in poor maintenance of water meters in the network. This resulted in the excessive use of estimates to determine water consumption to be billed to consumers.
107. The organisational structure of the parent municipality did not provide for a compliance officer. As a result, monitoring of and reporting on compliance with laws and regulations were not prioritised.
108. The accounting officer of the parent municipality did not develop and implement standard operating procedures and processes that detailed how the monitoring of the reported performance information would be conducted, organised and managed, including the determination of clear responsibilities for all the relevant role players.
109. The leadership culture of ethical business practices was not fully embedded throughout the

municipal entity to prevent non-compliance with laws and regulations, which resulted in some instances of irregular and fruitless and wasteful expenditure.

110. Effective human resource management was not implemented by the municipal entity to ensure that adequate and sufficiently skilled resources were in place and that performance was monitored.
111. The implementation of action plans was not adequately monitored by the municipal entity to address internal control deficiencies. As a result, matters reported in the prior years were recurring and also affected the opening balances and comparative figures.

Financial and performance management

112. Inadequate communication between the finance unit and other directorates within the parent municipality and municipal entity resulted in incomplete and inaccurate financial reporting relating to future contractual commitments and capital projects in progress.
113. A proper record keeping system was not implemented by the parent municipality and municipal entity to ensure that complete, timely, relevant, accurate and accessible information was available to support information included in the annual performance report of the municipality.
114. The municipal entity lacks adequate and appropriately skilled resources to carry out its operations and simultaneously maintain the records of all transactions and events for future reference.
115. The lack of adequate and appropriately skilled resources, as mentioned above, resulted in the management of the municipal entity not being able to implement basic controls over daily and monthly processing and reconciling of transactions, the safeguarding of assets, gathering of information on performance against predetermined objectives and compliance with laws and regulations.

Governance

116. The internal audit unit of the parent municipality was utilised to assist with non-internal audit-related work to clear audit findings of the previous years, which resulted in internal audits planned according to the audit plan not being executed. The evaluation of the daily and monthly controls, monthly asset counts, performance information reporting and information systems audits was not adequately performed.
117. Due to the limited number of audit committee members, the joint audit committee could not adequately fulfil all their oversight responsibilities in terms of the committee's charter.
118. The parent municipality performed a formal risk assessment late in the current financial year as the chief risk officer position was vacant. Consequently, the parent municipality did not timeously analyse risks and implement appropriate internal controls to mitigate these risks. In addition, appropriate risk management activities were not implemented at the municipal entity to ensure that regular risk assessments, including considering information technology risks and fraud prevention, were conducted and a risk strategy to address the risks was developed and monitored.

OTHER REPORTS

Investigations

119. During the year under review, an investigation was launched by an independent consulting firm into alleged irregularities in the following directorates of the parent municipality:
 - Fleet and mechanical workshop
 - Human resources

- Supply chain management

The investigation had not been completed at the date of this report.

Auditor - General

Pretoria

5 February 2013



AUDITOR - GENERAL
SOUTH AFRICA

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