

# REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND THE COUNCIL ON THE MANGAUNG METROPOLITAN MUNICIPALITY

## REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

### Introduction

1. I have audited the consolidated and separate financial statements of the Mangaung Metropolitan Municipality set out on pages xx to xx, which comprise the consolidated and separate statement of financial position as at 30 June 2013, the consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement, the statement of comparison of budget and actual amounts for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

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

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-general's responsibility

3. My responsibility is to express an opinion on the consolidated and separate financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipal entity's preparation and fair presentation of the consolidated and separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipal entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

### Basis for qualified opinion

#### Property, plant and equipment

6. The municipal entity did not review the residual values and useful lives of all electricity infrastructure assets at each reporting date in accordance with SA Standards of GRAP, GRAP 17, *Property, plant and equipment*. I was not able to determine the correct net carrying amount of infrastructure assets as it was impracticable to do so. Additionally,

there was a consequential impact on the depreciation, surplus for the period and the accumulated surplus. I was also unable to obtain sufficient appropriate audit evidence that management had properly allocated and accounted for sundry expenses and labour costs included in infrastructure assets of the municipal entity due to the status of the accounting records. Furthermore, the value of un-surveyed land amounting to R40 450 000 included in property, plant and equipment of the parent municipality could not be confirmed. Consequently, I was unable to determine whether any adjustment to property, plant and equipment stated at R8 954 176 352 (2012: R8 428 414 579) and R7 129 405 812 (2012: R6 648 420 672) in note 10 to the consolidated and separate financial statements respectively was necessary.

#### **Cash flow statement**

7. I was unable to obtain sufficient appropriate audit evidence regarding the cash flow statement and the related notes for the current and prior years due to the inclusion of transactions that are non-cash in nature, as well as differences between my calculations and the amounts disclosed in the cash flow statement. I was unable to confirm the cash flow statement by alternative means. Consequently, I was unable to determine whether any adjustment relating to the cash flow statement in the consolidated and separate financial statements was necessary.

#### **Other receivables from exchange transactions**

8. During 2012, I was unable to obtain sufficient appropriate audit evidence from the parent municipality for sundry receivables included in other receivables from exchange transactions. I was unable to confirm the sundry receivables by alternative means. Consequently, I was unable to determine whether any adjustments to the sundry receivables stated at R63 128 290 and R63 128 024 in note 5 to the consolidated and separate financial statements, respectively, were necessary. My audit opinion on the consolidated and separate financial statements for the period ended 30 June 2012 was modified accordingly. My opinion on the current period's consolidated and separate financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

#### **Consumer receivables from exchange transactions**

9. I was unable to obtain sufficient appropriate audit evidence from the municipal entity that management had properly accounted for all consumer receivables from exchange transactions for the current and prior years, as the vendor account balances and suspense accounts were not cleared appropriately. Consequently, I was unable to determine whether any adjustment to consumer receivables from exchange transactions stated at R637 405 580 (2012: R528 852 413) in note 7 to the consolidated financial statements was necessary.

#### **Payables from exchange transactions**

10. I was unable to obtain sufficient appropriate audit evidence from the municipal entity that management had properly accounted for all payables from exchange transactions for the current and prior years due to the status of the accounting records. I was unable to confirm payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment to payables from exchange transactions stated at R837 495 752 (2012: R899 571 039) in note 18 to the consolidated financial statements was necessary.

#### **Revenue from service charges**

11. The municipal entity did not account for revenue from exchange transactions in accordance with SA Standard of GRAP, GRAP 9. *Revenue from exchange transactions* as the consumer estimates for conventional electricity meters were not calculated appropriately. As a result, service charges and consumer receivables from exchange

transactions were overstated by R27 674 037 (2012: R56 194 409), respectively. Additionally, I was unable to obtain sufficient appropriate audit evidence for year-end estimates of prepaid electricity sales included in service charges. I was unable to confirm the value of the year-end estimates of prepaid electricity sales by alternative means. Consequently, I was unable to determine whether any adjustment to service charges stated at R2 370 333 963 (2012: R2 101 078 321) in note 41 to the consolidated financial statements was necessary.

#### **Irregular expenditure**

12. The municipal entity did not disclose all the irregular expenditure in note 66 to the consolidated financial statements, as required by section 125(2)(d)(i) of the MFMA. The municipal entity made payments in contravention of the supply chain management (SCM) requirements which were not included in irregular expenditure, resulting in irregular expenditure being understated by R55 953 216 (2012: R37 927 360).

#### **Accumulation of immaterial uncorrected misstatements**

13. The consolidated and separate financial statements are materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following elements making up the statement of financial position:
- Revaluation reserve stated as R776 141 327 in the consolidated financial statements was understated by R14 406 748
  - Accumulated surplus stated as R9 230 427 061 in the separate financial statements was understated by R7 540 214
  - Payables from exchange transactions stated as R652 643 630 in the separate financial statements were overstated by R3 254 386

#### **Qualified opinion**

14. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Mangaung Metropolitan Municipality as at 30 June 2013 and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

#### **Emphasis of matters**

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

#### **Restatement of corresponding figures**

16. As disclosed in notes 59 and 60 to the consolidated and separate financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered during the 2012-13 financial year in the consolidated and separate financial statements of the parent municipality and the municipal entity at, and for the year ended, 30 June 2012.

#### **Material losses**

17. As disclosed in note 67 to the consolidated and separate financial statements, the parent municipality incurred material water losses amounting to R116 966 492 (2012: R111 479 285) mainly due to the deterioration of the water reticulation system and unmetered water connections. In addition, the municipal entity suffered a significant electricity distribution loss of 104 810 908 KWh to the value of R94 906 556 (2012: R183 033 832) as disclosed in note 67 to the consolidated financial statements.

### **Material impairments**

18. As disclosed in note 4 to the consolidated financial statements, a provision for debt impairment to the amount of R57 220 684 (99,1%) (2012: R55 507 664) (96,1%) was made with regard to housing selling scheme loans, erven loans, vehicle loans and study loans amounting to R57 715 025 (2012: R57 761 838).
19. As disclosed in note 5 to the consolidated financial statements, a provision for debt impairment to the amount of R40 260 398 (40,7%) (2012: R36 937 970) (58,5%) was made with regard to amounts owing to the municipality in respect of sundry receivables, which include commercial rental income and other miscellaneous services rendered by the municipality amounting to R98 988 936 (2012: R63 128 290).
20. As disclosed in note 6 to the consolidated financial statements, a provision for debt impairment to the amount of R322 537 417 (73,9%) (2012: R272 433 076) (71,9%) was made with regard to amounts owing to the municipality in respect of property rates amounting to R436 569 652 (2012: R378 880 397).
21. As disclosed in note 7 to the consolidated financial statements, a provision for debt impairment to the amount of R1 255 533 478 (64,0%) (2012: R1 038 584 578) (63,9%) was made with regard to amounts owing to the municipality in respect of electricity, water, sanitation services and housing rentals amounting to R1 961 357 650 (2012: R1 623 211 025).

### **Service delivery**

22. Included in the cost of buildings as disclosed in note 10 to the consolidated and separate financial statements, is a capital spending amount of R351 906 448 that relates to the intermodal public transport facility. The construction of the facility was finalised but to date the facility has not been occupied because of disagreements between the taxi industry and the council.

### **Additional matter**

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

### **Unaudited supplementary schedules**

24. The municipality provided supplementary information in appendix G to the consolidated financial statements on whether resources were obtained and used according to the legally adopted budget, in accordance with SA Standards of GRAP, GRAP 24, *Presentation of budget information in financial statements*. The supplementary budget information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. Accordingly, I do not express an opinion thereon.

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

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

### **Predetermined objectives**

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

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

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

#### **Usefulness of information**

30. Section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Measures to improve performance for a total of 59% of the planned targets not achieved were not reflected in the annual performance report. This was due to inadequate internal policies and procedures over the processes pertaining to the reporting of performance information.
31. Section 41(c) of the MSA requires that the annual performance plan should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 36% of the reported objectives were not consistent with the objectives as per the approved annual performance plan. This is due to the lack of management review to ensure that objectives as per the service delivery and budget implementation plan (SDBIP) and the integrated development plan (IDP) align with objectives disclosed in the annual performance report.
32. The FMPPI requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 30% (parent municipality) and 82% (municipal entity) of the targets were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was aware of the requirements of the FMPPI but had not received the necessary training to enable application of the principles.
33. The FMPPI requires that performance targets be measurable. The required performance could not be measured for a total of 32% (parent municipality) and 77% (municipal entity) of the targets. This was due to the fact that management was aware of the requirements of the FMPPI but had not received the necessary training to enable application of the principles.
34. The FMPPI requires that indicators/measures should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 47% (parent municipality) and 82% (municipal entity) of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was aware of the requirements of the FMPPI but had not received the necessary training to enable application of the principles.
35. The FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. A total of 30% (parent municipality) and 59% (municipal entity) of the indicators were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the fact that management was aware of the requirements of the FMPPI but had not received the necessary training to enable application of the principles.

36. The FMPPI requires that the time period or deadline for delivery be specified. A total of 100% (municipal entity), of the targets were not time bound in specifying a time period or deadline for delivery. This was due to the fact that management was aware of the requirements of the FMPPI but chose not to prioritise reporting on performance.

#### **Reliability of information**

37. The FMPPI requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.
38. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to the development priorities for economic development, financial sustainability, spatial development and the built environment, basic services, public transport, social and community services, good governance as well as electricity and engineering wires.
39. This was due to limitations placed on the scope of my work as the municipality could not provide sufficient appropriate audit evidence in support of the reported performance information.

#### **Additional matter**

40. I draw attention to the matter below. This matter does not have an impact on the audit findings on predetermined objectives reported above.

#### **Material adjustments to the annual performance report**

41. Material audit adjustments in the annual performance report were identified during the audit, some of which were corrected by management and those that were not corrected have been reported on accordingly.

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

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

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

43. The performance management system of the parent municipality did not provide for measures to improve performance with regard to those development priorities and objectives where performance targets are not met, as required by section 41(1)(d) of the MSA.
44. The parent municipality did not establish mechanisms to monitor and review its performance management system, as required by section 40 of the MSA.
45. The municipal entity did not have and maintain effective, efficient and transparent systems of financial and risk management and internal controls as required by section 95(c)(i) of the MFMA.
46. The accounting officer of the municipal entity did not, by 20 January, assess the performance of the municipal entity during the first half of the financial year, taking into account the targets set in the service delivery agreement, business plan or other agreement with the municipal entity's parent municipality, as required by section 88(1)(a) of the MFMA.

#### **Budgets**

47. 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

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contravention of sections 15 and of the MFMA.

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

48. 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 of non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors were corrected and the supporting records were subsequently provided. The uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements being qualified in this regard.
49. The oversight report, containing comments on the annual report, was not adopted by the council within two months from the date on which the 2011-12 annual report was tabled, as required by section 129(1) of the MFMA.
50. The council's oversight report on the 2011-12 annual report was not made public within seven days of its adoption, as required by section 129(3) of the MFMA.

### **Audit committees**

51. The audit committee of the parent municipality did not advise the council on all matters relating to compliance with legislation, as required by section 166(2)(a)(vii) of the MFMA.
52. The audit committee of the parent municipality did not review all the quarterly internal audit reports on performance measurement, did not make recommendations to the council on the municipality's performance management system and did not submit, at least twice during the financial year, a report on the review of the performance management system to the council, as required by Municipal planning and performance management regulation 14(4)(a).
53. The audit committee of the municipal entity did not advise the accounting officer and board of directors on matters relating to internal financial control and internal audits, risk management, accounting policies, effective governance, performance management, adequacy, reliability and accuracy of financial reporting and information and performance evaluation as required by section 166(2)(a) of the MFMA.
54. The audit committee of the municipal entity did not meet at least four times for the year under review regarding matters related to the municipal entity, as required by section 166(4)(b) of the MFMA.

### **Internal audit**

55. The internal audit unit of the municipal entity did not function as required by section 165(2) of the MFMA, as the internal audit plan was not approved in time.

### **Procurement and contract management**

56. Contracts and quotations were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by SCM Regulation 43.
57. Sufficient appropriate audit evidence could not be obtained from the parent municipality to confirm that the performance of contractors or providers was monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
58. The performance of contractors or providers was not monitored by the municipal entity on a monthly basis, as required by section 116(2)(b) of the MFMA.
59. The parent municipality awarded contracts and quotations to bidders who did not submit a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM Regulation 13(c).

60. Goods and services of a transaction value above R200 000 were procured by the municipal entity without inviting competitive bids, as required by SCM Regulation 19(a).
61. Awards were made by the municipal entity to providers who were in the service of other state institutions or whose directors/ principal shareholders were in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM Regulation 44.
62. Sufficient appropriate audit evidence could not be obtained from the municipal entity that goods and services with a transaction value of below R200 000 were procured by means of obtaining the required price quotations, as required by SCM Regulations 17(a) and (c).
63. Sufficient appropriate audit evidence could not be obtained from the municipal entity that contracts were only extended or modified after tabling the reasons for the proposed amendment in the council of parent municipality, as required by section 116(3) of the MFMA.
64. Sufficient appropriate audit evidence could not be obtained from the municipal entity that all extension or modifications to contracts were approved by a properly delegated official, as required by SCM Regulation 5.
65. The municipal entity did not implement a SCM policy as required by section 111 of the MFMA.
66. Bid adjudication was not always done by committees of the municipal entity which were composed in accordance with SCM Regulation 29(2).
67. Sufficient appropriate audit evidence could not be obtained from the municipal entity that contracts were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding, as required by SCM Regulations 21(b) and 28(1)(a) and Preferential Procurement Regulations.
68. Quotations were accepted by the municipal entity from prospective providers who were not registered on the list of accredited prospective providers and did not meet the listing requirements prescribed by the SCM policy in contravention of SCM regulations 16(b) and 17(b).

#### **Conditional grants**

69. The parent municipality did not evaluate its performance in respect of programmes funded by the public transport infrastructure and system grant and the municipal systems improvement grant within two months after the end of the financial year, as required by section 12(5) of the DoRA.
70. The parent municipality did not submit its signed activity plan for the municipal systems improvement grant to the national department (CoGTA), as required by the Division of Revenue Grant Framework, Gazette No. 35399.

#### **Revenue management**

71. An adequate management, accounting and information system which accounts for debtors and revenue was not in place, as required by sections 64(2)(e) and 97(h) of the MFMA.
72. An effective system of internal control for debtors and revenue was not in place at the municipal entity, as required by section 97(i) of the MFMA.

#### **Asset management**

73. An adequate management, accounting and information system which accounts for assets was not in place, as required by sections 63(2)(a) and 96(2)(a) of the MFMA.
74. An effective system of internal control for assets was not in place, as required by

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sections 63(2)(c) and 96(2)(b) of the MFMA.

### **Consequences management**

75. Unauthorised, irregular as well as fruitless and wasteful expenditure incurred by the parent municipality was not always investigated to determine if any person was liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.
76. Unauthorised, irregular as well as fruitless and wasteful expenditure was not always recovered, by the parent municipality, from the liable person, as required by section 32(2) of the MFMA.
77. The accounting officer of the parent municipality did not always report cases of irregular conduct that constituted a crime to the South African Police Service, as required by SCM Regulation 28(1)(b).

### **Expenditure management**

78. Money owing by the municipal entity was not always paid within 30 days, as required by section 99(2) (b) of the MFMA.
79. An adequate management, accounting and information system at the municipal entity was not in place which recognised expenditure when it was incurred and accounted for creditors, as required by section 99(2) (c) of the MFMA.
80. Reasonable steps were not taken to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, as required by section 62(1)(d) and 95 (d) of the MFMA.

### **Liability management**

81. An adequate management, accounting and information system which accounts for liabilities at the municipal entity was not in place, as required by section 96(2)(a) of the MFMA.
82. An effective system of internal control for liabilities (including a liability register) was not in place at the municipal entity, as required by section 96(2) (b) of the MFMA.

### **Internal control**

83. 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 the qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

### **Leadership**

84. Due to a lack of basis (benchmark) information for performance reporting and the reconstruction of the performance management system, management of the municipal entity did not prioritise and ensure that adequate evidence was kept to support the reported information in the quarterly, mid-year and annual performance reports. Effective performance systems, processes and procedures as well as the management thereof had not been adequately developed for and implemented at the municipal entity. The financial statements were not properly reviewed for completeness and accuracy prior to submission for auditing. This resulted in many findings relating to incorrect recording, classification, non-accrual, disclosure or non-disclosure. Pertinent information was not identified and captured in a form and within a time frame to support financial reporting.
85. Management did not adequately monitor the implementation of prior year audit recommendations to adequately review processes followed in respect of the alignment

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between the annual performance report and the service delivery budget implementation plan.

86. Key management positions at the municipal entity were vacant during the year under review. The leadership did not always take timely and adequate action to address weaknesses at the finance and supply chain management directorates, which resulted in non-compliance with applicable legislation and gave rise to irregular and fruitless and wasteful expenditure. The lack of decisive action to mitigate emerging risks, implement timely corrective measures and address non-performance was evidenced by the failure of management to adequately address the external audit findings in a timely manner.

#### **Financial and performance management**

87. Delays in the re-appointment of consultants who prepared the asset registers and underlying records of the parent municipality contributed to the late preparation and submission of the asset registers. This resulted in insufficient time for adequate review processes to be performed by the finance division on the accuracy and completeness of the infrastructure asset registers and the financial statements. This resulted in material adjustments to the financial statements. The municipal entity did not have the capacity to address backlog issues and financial system problems, resulting in the need to appoint consultants. Consultants also assisted with the preparation of an asset register and financial statements. The management also appointed consultants to identify the irregular and fruitless and wasteful expenditure.
88. The asset controllers of the different directorates within the parent municipality did not, on a monthly basis, compare the physical assets within their directorates to the asset listings kept at the respective offices. In addition, inadequate communication between the different directorates and the finance division resulted in information in the asset registers relating to the physical location of the assets not being updated on a regular basis.
89. Inadequate communication between the different directorates within the parent municipality resulted in incomplete and inaccurate financial reporting relating to future contractual commitments and capital projects in progress. The finance division also did not perform adequate review functions to substantiate the completeness and accuracy of the commitment register. This resulted in material adjustments to the financial statements.
90. Investigations regarding the recoverability of long outstanding sundry receivables were not concluded by the parent municipality and municipal entity before year-end, as the data purification exercise on the consumer receivables was prioritised.
91. The municipal entity did not correctly implement the policies formulated by management for financial reporting purposes in case of consumption estimates.

#### **Governance**

92. Due to the late preparation of the draft financial statements of the parent municipality by the finance division, inputs from the internal audit division on the adequacy, reliability and accuracy of the draft financial statements were not obtained prior to the submission thereof to the audit committee. This resulted in insufficient time for adequate review processes to be performed by the audit committee on the fair presentation of the annual financial statements.
93. The implementation of recommendations made by the internal audit division of the parent municipality based on findings identified on quarterly and mid-year performance reporting was not adequately monitored by the executive management. This resulted in the report on predetermined objectives being subject to material adjustments.

94. Internal control deficiencies at the municipal entity were not identified, communicated and corrected in a timely manner. This resulted in the prior year audit findings not being substantially addressed. Although the municipal entity had outsourced internal audit function, it was not operating effectively during the year under review. The audit committee did not effectively perform the oversight role over the financial operations of the municipal entity for the entire financial year under review.

## **OTHER REPORTS**

### **Investigations**

95. Ten internal investigations relating to alleged theft, financial corruption, fraud, tender irregularities, and non-compliance with municipal SCM regulations by the council employees were finalised during the year. The investigations resulted in the suspension of and criminal proceedings being instituted against municipal officials.
96. Two external investigations relating to alleged theft, financial corruption, fraud, tender irregularities, and non-compliance with municipal SCM regulations were still in progress at year end.

*Auditor - General*

Bloemfontein

20 February 2014



**AUDITOR - GENERAL  
SOUTH AFRICA**

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