



AUDITOR - GENERAL
SOUTH AFRICA

Mayor
Setsoto Local Municipality
P.O. Box 116
Ficksburg
9370

4 April 2012

Reference: 21388REG10/11

Dear Mayor

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Setsoto Local Municipality for the year ended 30 June 2011

Attached please find Report of the Auditor-General on the financial statements and other legal and regulatory requirements for the year ended 30 June 2011.

It should be emphasised that this report will only become a public documents at date of Tabling, except if the provisions of the MFMA are not complied with and should therefore be treated as confidential until then.

My office will be glad to assist in any uncertainties that may exist regarding the contents of the reports.

I trust that you will find this in order.

Kind regards

Yours sincerely

A.G. Theron
Senior Manager: BLM4

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AUDITOR - GENERAL
SOUTH AFRICA

The Municipal Manager
Setsoto Local Municipality
P.O. Box 116
Ficksburg
9370

4 April 2012

Reference: 21388REG10/11

Dear Municipal Manager

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Setsoto Local Municipality for the year ended 30 June 2011

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa and section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
6. Sixty (60) copies of the municipal entity's annual report should be submitted to the undersigned Senior Manager once available.

7. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
8. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely



A.G. Theron
Senior Manager: BLM4

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REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND THE COUNCIL ON THE SETSOTO LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Setsoto Local Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages ... to

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these 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, 2010 (Act No. 1 of 2010) (DoRA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) (Constitution), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126 of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. 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.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse audit opinion.

Basis for adverse opinion

Cash flow statement

7. In terms of paragraph 49 of *GRAP 3 Accounting Policies, Changes in Accounting Estimates and Error (GRAP 3)*, an entity that restates comparative figures is required to disclose the nature of the prior period error; for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected. The comparative figures for the cash flow for the period ended 30 June 2011 did not agree to the final audited figures of the previous financial year and no disclosures are made in the financial statements.

Property, plant and equipment (PPE)

8. I could not obtain sufficient appropriate audit evidence to support the existence, completeness and valuation of, as well as the municipality's rights to, PPE amounting to R642 682 817 (2010: R546 038 278) as disclosed in note 8 to the financial statements. The asset register, which is deemed to be the only suitable record of the municipality's assets, differed by R708 105 from the disclosed balances. It was also not considered to be reliable due to the following shortcomings identified:

- (a) The asset register did not in all instances provide sufficient information on the physical location, unique identification numbers and valuation of assets.
- (b) Various assets were also identified without any information on the cost of the assets.

The municipality's records did not allow me to perform alternative procedures to obtain sufficient and appropriate audit evidence.

9. Sufficient appropriate audit evidence for capital expenditure of R4 524 130 (2010: R8 012 297) could not be presented for audit purposes. Thus, I could not confirm the existence, completeness and valuation of, and the municipality's rights to, PPE. The municipality's records did not allow me to perform alternative procedures.
10. The opening balance of PPE in 2010-11 was restated in the asset register from R323 154 016 to R128 836 970. However, the restatement did not agree to the statement of financial position and note 8 to the financial statements. The difference could not be satisfactorily explained and I was unable to perform alternative procedures in this regard.
11. The statement of changes in assets was restated for a prior period error adjustment from R94 791 to R4 019 603. This amount was not verifiable against the audited financial statements of 2009-10, which included an error adjustment of only R94 791. The completeness, valuation as well as the municipality's rights could not be verified against sufficient, appropriate audit evidence. I was unable to perform alternative procedures in this regard.
12. I could not obtain sufficient appropriate audit evidence to confirm the existence, completeness and valuation of, and the municipality's right to, impairment amounting to R203 830 435 disclosed in note 8 to the financial statements and R189 315 032 disclosed in the statement of changes to net assets. This is due to the fact that opening balances for each class of asset and the value of any impairment for each class of asset could not be confirmed. The balance of impairment losses disclosed in note 8 to the financial statements also differed from the balance disclosed in the

reconciliation of PPE in note 8 by R13 159 079, and the difference could not be resolved. The municipality's records did not allow me to perform reasonable alternative procedures to confirm the balances.

13. In terms of paragraph 18 of GRAP 21 *Impairment of Non-Cash Generating Assets* (GRAP 21), an entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable service amount of the asset. In the previous year it was reported that lease assets with a carrying value of R6 898 601 were identified that could be impaired. No prior period error to correct this impairment was made in the 2010-11 financial statements. Therefore, the opening balance of leasehold assets of R15 419 696 and the accumulated surplus account balance are considered to be misstated by at least R2 499 868.
14. GRAP 17 *Property, Plant and Equipment* (GRAP 17) requires the municipality to review the residual value and the useful life of an asset at least at each reporting date and, if expectations differ from previous estimates, the changes must be accounted for as a change in an accounting estimate in accordance with GRAP 3. I could not obtain sufficient appropriate audit evidence that the municipality had reviewed the assets to determine if there was a change in accounting estimate.
15. I could not obtain sufficient appropriate audit evidence that the municipality had identified investment properties and made the appropriate disclosures in the financial statements as required by paragraph 84 of GRAP 16 *Investment Property*. Although the municipality recognised rental income of R355 344, the asset register did not clearly identify the investment properties. Consequently, I could not obtain any assurance over the valuation and completeness of investment property included in land and community assets of R78 368 850 disclosed in note 8 to the financial statements.
16. GRAP 17 requires that subsequent to initial recognition at cost, an item of PPE should be carried at cost less accumulated depreciation and accumulated impairment losses. As indicated in note 8 to the financial statements, land and buildings were not impaired but had it been done, land and buildings of R288 667 050 would have been impaired to R78 368 850, which is currently disclosed in the financial statements. An amount of R210 298 200 from the properties owned by the municipality as indicated in the valuation roll is not recognised in the financial statements resulting in a misstatement of PPE and impairment losses by this amount.
17. An amount of R189 315 545 was directly accounted for as impairment losses against the accumulated surplus for the year ended 30 June 2011 as disclosed in the statement of changes in net assets. Since the municipality did not distinguish between assets that are cash-generating and those that are not, there were no disclosures in the financial statements as required by paragraph 72 of GRAP 21 or paragraph 120 of GRAP 26 *Impairment of Cash Generating Assets* (GRAP 26).
18. Included in the amount of R2 651 107 in note 21 (other income) to the financial statements were proceeds of R1 184 254 in lieu of property sales not yet recognised and disclosed as disposals in a reconciliation to the class of PPE as required by paragraph 82(e) of GRAP 17, resulting in the PPE in note 8 and revenue being overstated by R1 184 254.

Trade and other payables from exchange transactions

19. Included with trade and other payables from exchange transactions is an amount of R4 889 345 in respect of unidentified deposits received. This account balance was not cleared at year end and the identity of the depositor was not known. Consequently, the amount could not be substantiated against sufficient appropriate audit evidence and therefore the valuation, obligation of this amount could not be confirmed. I was unable to perform alternative procedures owing to limitations with the computerised system in use.
20. Paragraph 14 of IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) states that an entity shall recognise a financial liability in its statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument. Trade payable transactions of R540 173 were identified that were not included in the balance of trade and other payables from exchange transactions in note 9 to the financial statements. Consequently, the completeness of trade and other payables could not be confirmed.
21. Trade and other payables (note 9) were increased from R12 551 924 to R25 671 567 in the revised financial statements. Included was R6 141 816 in respect of payments received in advance, which were not supported by sufficient appropriate audit evidence.

Furthermore, the balance of note 9 to the financial statements of R741 620 (2010: R681 933) could not be substantiated against sufficient appropriate audit evidence.

Consequently, I was unable to confirm the valuation, rights and obligations as well as completeness of trade and other payables in note 9. I was not able to perform alternative procedures owing to limitations with the accounting system in use.

22. Included in the balance of trade and other payables from exchange transactions of R25 671 567 as disclosed in note 9 was a staff leave accrual of R7 017 048. This account balance included leave credits calculated at R2 160 862 that should not have formed part of this account, thus overstating the account balance and understating the accumulated surplus at year-end.

Trade and other receivables from exchange transactions

23. A difference of R1 million existed between management calculations of non-recoverable receivables of R231 074 513 and the financial statements in support of the trade and other receivables amount of R230 071 476, resulting in an understatement of this account balance. Furthermore, a difference of R1 491 166 existed between the provision for debt impairment in note 4 and the reconciliation of the receivable amounts in the same note. I was thus unable to confirm the completeness, valuation and rights assertions of the amounts disclosed in the financial statements. As the entity's systems did not permit me to perform alternative procedures, the completeness and valuation of non-recoverable debtors could not be confirmed.
24. The completeness and valuation of, and the municipality's rights to, an amount of R6 146 354 included in net trade and other receivables from exchange transactions of R70 231 973 could not be audited satisfactorily, owing to a lack of sufficient appropriate audit evidence. As a result, I was unable to verify the municipality's claim and confirm that these monies were not owed to and recoverable by the municipality, nor could I perform alternative procedures owing to limitations identified with the accounting system in use.

25. The financial statement disclosure of note 4 (trade and other receivables from exchange transactions) was incorrect, owing to the reconciliation of the debt impairment provision showing a closing balance of R230 071 476 that differed by R5 231 579 from the trade and other receivables from exchange transactions analysis in note 4 to the financial statements of R224 839 897. Similarly, trade and other receivables from exchange transactions of R300 303 449 differed by R11 373 395.

Inventory

26. As reported in paragraph 13 of my previous report, inventory of R1 744 376 (2010: R1 281 881) as disclosed in note 6 to the financial statements could again not be audited satisfactorily because I did not find sufficient appropriate audit evidence that the stock count had been adequately performed. Shortcomings included inventory items that were not recorded on the inventory system and stores trial balance; old, damaged and redundant items still at store locations and not taken off the inventory registers; third party inventory at the municipal store location not counted and recorded as consignment stock; and a lack of an inventory policy for a major part of the year. Owing to this, I could not perform reasonable alternative procedures to confirm the municipality's right to inventory and the valuation, existence and completeness of inventory at 30 June 2011.
27. Contrary to paragraph 45 of GRAP 12 *Inventory*, which requires that the financial statements disclose the amount of inventories recognised as an expense during the period and the amount of any write-down of inventories recognised as an expense and other associated disclosures, no such disclosures were included in the financial statements for the year ended 30 June 2011.

Unspent conditional grants and receipts

28. The balance of unspent conditional grants disclosed in note 14 to the financial statements of R8 175 155 (2010: R32 205 544) could not be substantiated by sufficient appropriate audit evidence. Consequently, I could not confirm the completeness, valuation, obligation and existence assertions and was unable to perform alternative procedures as a result of shortcomings in internal control.
29. According to note 14, an amount of R78 331 389 was recognised as income during the year. The completeness, valuation, rights and existence assertions of this amount could not be audited, owing to a lack of sufficient appropriate audit evidence. According to note 8, an amount of R66 610 389 was spent on PPE, resulting in a difference of R11 720 503 which could not be resolved satisfactorily. The application of alternative procedures was not possible owing to shortcomings in internal control.

Irregular expenditure

30. Irregular expenditure of R31 471 656 (2010: R27 108 966) disclosed in note 36 to the financial statements could not be confirmed, as particulars of the following instances of the irregular awarding of contracts were not disclosed in the financial statements as irregular expenditure, as required by section 125(2) of the MFMA:
- (a) Payments of R25 903 939 were made towards contracts that had not been awarded in accordance with the municipal supply chain management (SCM) policy, resulting in irregular expenditure. The possibility that fraudulent actions took place with the awarding of these contracts could not be excluded.

- (b) Irregular expenditure of R31 004 (2010: R1 183 153) incurred as a result of payments to councillors in excess of the limits determined in terms of the Remuneration of Public Officer Bearers Act of South Africa, 1998 (Act No. 20 of 1998) was not disclosed in note 36.
- (c) In terms of section 43(2) of the annual DoRA, spending an allocation in contravention of DoRA constitutes irregular expenses in terms of the MFMA. An amount of R4 529 873 from the municipal infrastructure grant was used to defray operational expenses in the previous financial year, resulting in irregular expenditure being understated by the same amount in the financial statements.

The completeness, compliance, classification and accuracy of irregular expenditure disclosed in note 36 to the financial statements could not be confirmed.

Fruitless and wasteful expenditure

- 31. The completeness, accuracy, classification and occurrence of fruitless and wasteful expenditure of R11 038 059 (2010: R1 347 142) disclosed in note 35 to the financial statements could not be determined, as transactions of R4 370 294 were identified during the year that had not been included in the disclosure note. These exclude amounts to be paid as a result of the delays with the finalisation of the audit processes and additional work performed on late responses to replies to audit findings, which were in many instances not submitted or submitted late.

Unauthorised expenditure

- 32. The disclosure of completeness, accuracy, classification and occurrence of unauthorised expenditure of R21 181 328 (2010: R1 095 548) disclosed in note 34 to the financial statements could not be determined because of the following:
 - (a) Capital expenditure of R1 095 548 was identified in the previous year that constituted unauthorised expenditure because it was not budgeted for or disclosed in the financial statements. This matter was not corrected.
 - (b) Current year spending exceeded the limits of the amounts appropriated for certain votes in the adjustment budget by R21 543 944, of which only R21 141 328 was included in note 34 to the financial statements, resulting in an understatement of R402 618.

The systems used by the municipality did not permit the application of alternative procedures.

General expenditure

- 33. Sufficient appropriate audit evidence for expenditure payments of R19 850 421 could not be obtained, resulting in a limitation on the audit. I could therefore not confirm the validity and accuracy of the transactions. The systems used by the municipality did not permit the application of alternative procedures.
- 34. An amount of R644 816 was paid to several contractors for the establishment of a nursery in previous financial years, which to date could not be substantiated by way of sufficient appropriate audit evidence, while management processes were not adequate to enable me to perform alternative procedures.

Investments in municipal entity

35. The financial statements of the municipality could be materially misstated, as the financial information of the municipal entity established by the council during the financial year, namely the Setsoto Integrated Dairy Project, was not consolidated and a consolidated set of financial statements presented for auditing, as required by section 126(1)(b) of the MFMA.

Related party transactions

36. I was unable to obtain the representations considered necessary from the accounting officer with respect to the identification and balances of, and transactions with, related parties. Consequently, I could not determine the effect on the disclosures in note 32 to the financial statements and was also unable to perform alternative procedures owing to limitations with the obtaining of information.

Going concern

37. The municipality faces challenges that are highlighted in note 47 (going concern), but the disclosure is incomplete and does not include the following going concern risks faced by the municipality:
- *Decline in service standards:* During the financial year, several community protests were observed of which the most notable were the one on 14 April 2011 and subsequent to year-end on 14 September 2011. A commission of enquiry was set up to investigate cases of irregularities, of which the report was presented to the council. As per the approved adjustment budget, the council included R21 million from a government department in respect of capital spending but by year-end no monies had been received.
 - *Poor accounting and performance management systems and controls:* During the year, financial reports were not submitted timeously to the relevant stakeholders owing to the implementation of a new financial system. These included VAT 201 returns, bank reconciliations, section 71(2) MFMA reports and valuation roll reconciliations.
 - *Over-reliance on government grants and subsidies:* The municipality is not able to generate sufficient cash to finance its normal course of business transactions. According to the 2010-11 financial statements, revenue from exchange and non-exchange transactions was R343 278 736 whereas government grants and subsidies of R206 606 760 represented 60% of the total revenue in 2010-11. According to the approved budget, the council indicated that the budget of R379 million would be 40% financed internally and 60% from external sources. Eight million rand of the government grants received from the conditional municipal infrastructure grant was spent on items not related to the conditions of the grant.
 - *Operating issues:* During the previous year, numerous findings were raised by internal and external audit. To date, no formal replies to these findings have been received. The financial statements presented for auditing contained material errors and were not prepared in terms of the appropriate accounting framework, which required external assistance from several government departments to bring it in line with the GRAP accounting framework.

Financial instruments: presentation and disclosure

38. In terms of paragraphs 33 and 34 of IFRS 7, the municipality is required to disclose for each type of risk arising from financial instruments prescribed qualitative and quantitative disclosures. The municipality did not provide me with sufficient appropriate audit evidence to substantiate the disclosures made in note 46 (risk management) to the financial statements. Consequently, I was unable to adequately audit the occurrence, rights and obligations, completeness, classification, accuracy and compliance assertions. Owing to shortcomings identified with the accounting system, I was unable to perform alternative procedures.

VAT Receivables and VAT Payables

39. The value-added tax (VAT) receivable of R5 584 510 was incorrectly included in both the VAT receivable and the VAT payable at 30 June 2011. This resulted in the overstatement of the VAT payable of R5 584 510 at year-end as reflected in note 11 to the financial statements.
40. Input VAT of R5 317 185 was not claimed resulting in VAT receivables as disclosed in note 12 to the financial statements understated by this amount and PPE overstated at 30 June 2011.

Bulk purchases

41. The disclosure of bulk purchases of R30 341 173 in note 27 to the financial statements did not agree to the general ledger total of R33 922 173. Not all purchases were included in note 27, resulting in an understatement of bulk purchase expenditure of R3 581 068.

Other receivables from non exchange transactions

42. Deductions in respect of employee tax for certain employees were done contrary to the tax tables determined in terms of paragraph 9(1) of the 4th schedule, resulting in an overstatement of employee tax amounting to R868 033, which was included in the amount of R8 468 466 disclosed in note 38 to the financial statements. Payables from non-exchange transactions were understated by R868 033 and Other payables and Other receivables overstated with the same amount.
43. The contract performance measures and the methods whereby they were monitored were insufficient to ensure effective contract management as per the requirements of section 116(2)(c) of the MFMA. Payments were made in previous years that included overpayments to suppliers for which no receivable was created. Other receivables were therefore understated by R802 581 at year-end.

Adverse opinion

44. In my opinion, because of the significance of the matters described in the basis for adverse opinion paragraphs, the financial statements do not present fairly the financial position of the Setsoto Local Municipality as at 30 June 2011 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 matter

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

Restatement of corresponding figures

46. As disclosed in notes 33 and 49 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of correcting prior year audit findings during the current financial year in the financial statements of the municipality at, and for the year ended, 30 June 2010.

Other matter

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

Unaudited supplementary schedules

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Predetermined objectives

No reporting against predetermined objectives, indicators and targets

49. I was unable to conduct the audit of performance against predetermined objectives, as the municipality did not submit the annual performance report, as required by section 46 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and section 121(3)(c) of the MFMA.

Strategic planning and performance management

50. The municipality did not implement a framework that described and represented how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement would be conducted, organised and managed, including determining the roles of the different role players, as required by sections 38, 39, 40 and 41 of the MSA and Municipal Planning and Performance Management Regulations (MPPMR) 7 and 8.
51. The accounting officer of the municipality did not by 25 January assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan (SDBIP), as required by section 72(1)(a)(ii) of the MFMA.
52. The municipality did not enter into a service delivery agreement with the municipal entity for the provision of a municipal service, as required by section 76(b) of the MSA and MPPMR 9.

Compliance with laws and regulations

Municipal Finance Management Act

Annual budgets

53. The SDBIP was not completed and submitted to the mayor for approval, contrary to section 53(1)(c) of the MFMA that requires the mayor of a municipality to take all reasonable steps to ensure that the municipality's SDBIP is approved within 28 days after the approval of the budget.
54. The accounting officer did not always submit the monthly budget statements to the mayor and/or the relevant provincial treasury, as required by section 71(1) of the MFMA.
55. The municipality incurred expenditure that had not been budgeted for or was in excess of the limits of the amounts provided for in the votes in the approved budget, in contravention of section 15 of the MFMA.

Human resource management

56. The municipal manager and senior managers directly accountable to the municipal manager did not sign annual performance agreements for the year under review, as required by section 57(1)(b) and 57(2)(a) of the MSA.
57. The municipal manager could not provide an updated and approved organisational structure and job descriptions for each post on the staff establishment as required by section 66(1)(b) of the MSA. The job descriptions were outdated and not relevant to the operations of the municipality.
58. Contrary to the requirements of sections 38(a), 38(b) and 40 of the MSA, except for the municipal manager and managers reporting to him in terms of section 57, no appropriate systems were in place to ensure that the performance of municipal staff was reviewed continuously and steps were taken to address any shortcomings identified during this process.

Annual financial statements and annual report

59. The municipal council did not adopt an oversight report containing the council's comments on the annual report within two months from the date on which the 2009-10 annual report had been tabled in the council, as required by section 129(1) of the MFMA.
60. The financial statements submitted for auditing did not comply with section 122(3) of the MFMA. Material misstatements were identified during the audit, certain of which were corrected by management. Those that were not corrected are included in the basis for adverse opinion paragraphs.

Expenditure management

61. The accounting officer did not take effective and appropriate steps to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, as per the requirements of section 62(1)(d) of the MFMA.

Procurement and contract management

62. Sufficient appropriate audit evidence could not be obtained that bid specifications had been drafted by bid specification committees that were composed of one or more officials of the municipality, as required by SCM Regulation 27(3).
63. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value between R10 000 and R200 000 had been procured by means of obtaining written price quotations from at least three different prospective providers, as per the requirements of SCM Regulation 17(a) and (c).
64. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value above R200 000 had been procured by means of inviting competitive bids, as per the requirements of SCM Regulations 19(a) and 36(1).
65. The contract performance measures and the methods whereby they were monitored were insufficient to ensure effective contract management, as per the requirements of section 116(2)(c) of the MFMA.

Asset management

66. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of internal control for assets (including an asset register), as required by section 63(2)(c) of the MFMA.

Audit committees

67. The performance audit committee or another committee functioning as the performance audit committee did not perform the following functions as required by MPPMR 14:
 - Review the municipality's performance management system and make recommendations in this regard to the council of the municipality.
 - Submit a report to the council regarding the performance management system at least twice during the financial year.

Financial misconduct

68. Investigations were not instituted following all allegations of financial misconduct against officials of the municipality, as required by section 171(4)(a) of the MFMA.

Revenue management

69. Revenue received by the municipality was not always reconciled at least on a weekly basis, as required by section 64(2)(h) of the MFMA.

INTERNAL CONTROL

70. In accordance with the PAA and in terms of *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for the adverse opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

71. The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.
72. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting.
73. The mayor and the municipal manager did not implement effective human resource management to make sure that performance was monitored by ensuring that performance agreements were signed in line with the MSA.

Financial and performance management

74. The accounting officer did not prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information.
75. Management did not review and monitor compliance with applicable laws and regulations.
76. The accounting officer did not implement controls over daily and monthly processing and reconciling of transactions.

Governance

77. Management did not implement appropriate risk management activities to ensure that regular risk assessments, including considering information technology risks and fraud prevention as well as the review of the effectiveness of the audit committee, were conducted and that a risk strategy to address the risks was developed and monitored.

OTHER REPORTS

Investigations

78. The member of the executive council (MEC) for local government appointed a commission of enquiry into the spate of community protests that the municipality experienced during the financial year. That report was released to the MEC subsequent to year-end. Details of the investigation included non-compliance with SCM practices and led to, amongst others, the resignation of the chief financial officer and other senior managers subsequent to year-end.

Agreed-upon procedures engagements

79. As reported in paragraph 55 of my previous report, the engagement to review the administration and monitoring of certain contracts and tenders relating to the establishment of solid waste disposal sites was concluded and the findings were released to management for consideration.

Auditor-General
Bloemfontein

31 March 2012



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence