

**REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL
LEGISLATURE AND THE COUNCIL ON THE MOLEMOLE LOCAL MUNICIPALITY
REPORT ON THE FINANCIAL STATEMENTS**

Introduction

1. I was engaged to audit the financial statements of the Molemole Local Municipality, which comprise the statement of financial position as at 30 June 2012, the statements of financial performance, statement of changes in net assets and cash flows 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 financial statements in accordance with the 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, 2011 (Act No. 6 of 2011) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on conducting the 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. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Accumulated surplus

4. The Standards of Generally Recognised Accounting Practice, GRAP 3, *Accounting policies, changes in accounting estimates and errors* requires that an entity shall 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 amount of the correction at the beginning of the earliest prior period presented; and if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected. The municipality has not retrospectively restated its post employment medical benefit liability and long service reward's comparative balances as required by GRAP 3. Supporting documentation was not available to enable me to determine the restatement required and the municipality's accounting records did not permit the application of alternative audit procedures. Consequently, I am unable to satisfy myself as to the accuracy of employee costs and the valuation of the accumulated surplus as disclosed in the financial statements.

5. The comparative figures as disclosed in the financial statements include the following unexplained differences between the prior year audited financial statements and the current year restated amounts:

Statement of Financial Position:

Item	Amount as per 2011/2012 financial statements	Amount as per 2010/2011 financial statements	Difference
Cash and cash equivalents	12 161 717	12 283 343	(121 626)
Trade and other receivables from exchange transactions	(898 186)	2 626 650	(3 524 836)
Other receivables from non-exchange transactions	3 069 958	2 183 412	886 546
Other current financial assets	651 039	0	651 039
VAT receivable	16 291 578	1 712 799	14 578 779
Property, plant and equipment	76 176 663	76 176 687	(24)
Trade and other payables from exchange transactions	12 841 553	14 145 938	(1 304 385)
VAT payable	13 522 300	0	13 522 300
Current portion of unspent conditional grants and receipts	1 581 640	2 198 407	616 767
Other current financial liabilities	868 443	0	868 443
Current portion of finance lease liability	0	93 408	(93 408)
Non-current finance lease liability	601 099	507 691	93 408
Reserves	20 463 443	5 068 809	15 394 634
Accumulated surplus	57 669 720	73 064 355	(15 394 635)

Statement of Financial Performance:

Item	Amount as per 2011/2012 financial statements	Amount as per 2010/2011 financial statements	Difference
Service charges	5 349 703	5 349 783	(80)
Public contributions, donations and other income	2 110 998	2 169 854	(58 856)
Employee related costs	28 775 607	29 285 812	(510 205)
Remuneration of councillors	5 223 329	5 391 264	(167 935)
Impairment loss	0	124 772	(124 772)
General expenses	17 005 719	16 261 745	743 974

Statement of Cash Flows:

Item	Amount as per 2011/2012 financial statements	Amount as per 2010/2011 financial statements	Difference
Net cash and cash equivalents at beginning of period	6 885 005	7 006 632	(121 627)

Notes to the financial statements

Item	Amount as per 2011/2012 financial statements	Amount as per 2010/2011 financial statements	Difference
Unauthorised expenditure	0	5 789 284	5 789 284
Fruitless and wasteful expenditure	0	1 684 227	1 684 227
Irregular expenditure	0	3 968 019	3 968 019

The municipality's records did not permit the application of alternative procedures regarding these differences. Consequently, I was unable to determine whether any adjustments to the comparative figures were necessary.

6. The municipality could not provide me with sufficient appropriate audit evidence to support the revaluation reserve totalling R42 695 546 included in the statement of change in net assets. The municipality's records did not permit the application of alternative audit procedures. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness and valuation pertaining to the total reserves amounting to R47 764 355.
7. The municipality could not provide me with sufficient appropriate audit evidence to support the other items totalling R6 128 047 included in the statement of change in net assets. The municipality's records did not permit the application of alternative audit procedures. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness and valuation pertaining to the accumulated surplus amounting to R100 993 240.

Cash and cash equivalents

8. My audit procedures performed on the cash flow statement revealed the following differences:
 - Cash flows from operating activities stated as R28 062 236 were understated with an amount of R1 455 837;
 - Cash flows from investing activities stated as R30 772 634 were understated with an amount of R33 102 071;
 - Cash flows from financing activities stated as R9 001 665 were overstated with an amount of R4 113 324;

I was unable to obtain any reconciliations or explanations for the differences identified. The municipality's records did not permit the application of alternative audit procedures. Consequently, I was unable to satisfy myself as to the completeness and valuation of the cash flow statement as presented in the financial

statements of the municipality.

9. The municipality could not provide me with sufficient appropriate audit evidence to support journal entries of R2 576 586 credited to cash and cash equivalents. The municipality's records did not permit the application of alternative audit procedures. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness and valuation of cash and cash equivalents.
10. The municipality could not provide me with sufficient appropriate audit evidence to support reconciling items totalling R302 787 included as part of the year-end bank reconciliation. The municipality's records did not permit the application of alternative audit procedures. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness and valuation pertaining to cash and cash equivalents.
11. I have identified a bank account amounting to R10 159 913 that was not included as part of cash and cash equivalents. As a result, cash and cash equivalents are understated by R10 159 913. I was unable to determine the effect on the other account balances or classes of transactions contained in the financial statements.

Commitments

12. A difference of R6 541 013 was noted between the commitments of R12 012 700 disclosed in note 40 to the financial statements and the underlying accounting records. The municipality was unable to provide me with a reconciliation between the financial statements and the commitment schedule and its records did not permit the application of alternative audit procedures. Consequently, I was unable to satisfy myself as to the valuation of commitments as disclosed in the financial statements.
13. Commitments amounting to R12 012 700 as disclosed in note 40 to the financial statements incorrectly include accruals amounting to R629 030. Consequently, commitments are overstated and accruals are understated by R629 030.
14. Commitments amounting to R12 012 700 as disclosed in note 40 to the financial statements exclude contracts amounting to R11 124 462 identified from the municipality's contract management system. Consequently, commitments are understated by R11 124 462.

Employee costs

15. The municipality did not disclose its accounting policy on employee costs in the financial statements as required by the Statement of Generally Accepted Accounting Practice, GRAP 1: *Presentation of Financial Statements*.
16. The employee cost balance and remuneration paid to councillors to the amount of R45 813 930 as disclosed in the statement of financial performance, does not agree to the balance of R38 576 414 according to the payroll report. The municipality did not reconcile the difference of R7 237 516 between the financial statements and the underlying accounting records. Consequently the employee cost balance is overstated by R7 237 516. I was unable to determine the effect on the other account balances or classes of transactions contained in the financial statements.

17. The municipality could not provide sufficient appropriate audit evidence to support the employers' contributions to medical aids and pension funds recognised as an expense in the financial statements. The records of the municipality did not allow the application of alternative audit procedures. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence and accuracy of the medical aid and pension fund contributions amounting to R5 570 617 as disclosed in note 23 to the financial statements.
18. The leave accrual balance of R4 399 324, as disclosed in note 9 to the financial statements, does not agree to the balance of R3 976 531 according to the payroll report. The municipality did not reconcile the difference of R422 793 between the financial statements and the underlying accounting records. Consequently the employee cost balance and leave accrual balance is overstated by R422 793.

Fruitless and wasteful expenditure

19. Section 125(2)(d) of the MFMA requires a municipality to disclose particulars of any material losses and material irregular, fruitless and wasteful and unauthorised expenditure that occurred during the financial year and whether these are recoverable. The following fruitless and wasteful expenditure were identified:

- Expenditure amounting to R2 770 was incurred when deceased employees were paid their full monthly salaries in the month that they passed away instead of a proportional amount.
- A loss amounting to R22 252 was incurred as a result of poor controls implemented during the relocation of inventory items to a new store.
- Interest on overdue accounts amounting to R4 779 was incurred.

These amounts were not disclosed in the financial statements resulting in fruitless and wasteful expenditure being understated by R29 801.

20. No system was in place for the identification and recognition of fruitless and wasteful expenditure and there were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all fruitless and wasteful expenditure was properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of fruitless and wasteful expenditure.

Irregular expenditure

21. The municipality procured goods and services to the value of R31 512 091 in contravention of the supply chain management requirements. The amount was not disclosed in the financial statements as required by section 125(2)(d) of the MFMA. Furthermore, due to the inadequate implementation of an appropriate procurement and provisioning system, I was unable to obtain sufficient appropriate evidence that the irregular expenditure identified above and the amount of R2 166 145 as disclosed in note 38.2 to the financial statements, represents all the irregular expenditure incurred during the financial year under review.
22. Bidding documentation for tenders amounting to R2 025 899 were not available for audit purposes. The municipality's records did not permit the application of alternative audit procedures. As a result, I was unable to verify the completeness of

irregular expenditure as disclosed in note 38.2 of the financial statements.

23. No system was in place for the identification and recognition of irregular expenditure and there were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all irregular expenditure was properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of fruitless and wasteful expenditure.

Property, plant and equipment

24. The municipality did not review the residual values and useful lives of property, plant and equipment at each reporting date in accordance with Standard of Generally Recognised Accounting Practice, GRAP 17 – *Property, plant and equipment* as evidenced from negative net asset values identified in the fixed asset register. The municipality's records did not permit the application of alternative audit procedures. Consequently, the impact on the carrying value of property, plant and equipment and corresponding effect on accumulated surplus in terms of Standards of Generally Recognised Accounting Practice, GRAP 3 – *Accounting policies, changes in accounting estimates and errors* as disclosed in the statement of financial position could not be determined.
25. Property, plant and equipment as disclosed in note 7 to the annual financial statements include an unexplained difference between the trial balance and the financial statements amounting to R6 128 645. No reconciliation was performed between the financial statements and the underlying records. Consequently, property, plant and equipment is overstated by R6 128 645. I was unable to determine the effect on the other account balances or classes of transactions contained in the financial statements.
26. The following unexplained differences were found between the amounts disclosed in note 7 to the financial statements and the fixed asset register:

Disclosure	Amount as per note 7 to the financial statements	Amount as per fixed asset register	Difference – Overstatement / (understatement)
Carrying amount – Community assets	26 359 164	10 754 600	15 604 564
Carrying amount – Buildings	23 160 739	8 804 115	14 356 624
Depreciation – Other assets	1 813 811	1 787 255	26 555
Depreciation – Community assets	498 497	184 661	313 836
Depreciation – Finance lease assets	0	153 103	(153 103)
Depreciation – Buildings	960 646	826 417	134 229
Depreciation – Infrastructure	1 284 678	1 644 137	(359 459)
Additions – Other assets	2 329 437	2 143 648	185 789

Disclosure	Amount as per note 7 to the financial statements	Amount as per fixed asset register	Difference – Overstatement / (understatement)
Additions – Buildings	10 054 146	6 109 786	3 944 360
Additions – Land	0	3 944 360	(3 944 360)
Additions – Infrastructure assets	81 494 306	82 524 525	1 030 219

The municipality did not reconcile the differences between the financial statements and the underlying accounting records, and the accounting records of the municipality did not permit the application of alternative procedures. Consequently, I was unable to determine whether any adjustments to the property, plant and equipment figure were necessary.

27. The profit and loss on sale account was incorrectly credited with an amount of R382 833 while the account should have been debited with the mentioned amount. Consequently, profit and loss is understated and other expenses overstated by R765 666.
28. I have inspected the classification of assets according to the financial statements and noted that community assets amounting to R4 852 428 were incorrectly classified as buildings. As a result, community assets are understated and buildings overstated by R4 852 428.
29. Investment properties amounting to R3 734 000 was included in the balance of investment property as well as property, plant and equipment. Consequently, property, plant and equipment is overstated by R3 734 000. I was unable to determine the effect on the other account balances or classes of transactions contained in the financial statements.
30. I have recalculated the accumulated depreciation according to the fixed asset register and noted a difference of R2 290 819 which could not be explained. As a result, accumulated depreciation is overstated by R2 290 819.
31. Statements of Generally Recognised Accounting Practice, GRAP 17 – *Property, plant and equipment* requires that a municipality shall revalue its assets with sufficient regularity to ensure that the carrying amount does not differ materially from fair value at reporting date. I have noted that the land and buildings of the municipality were last valued during the 2008-09 financial period. The municipality's records did not permit the application of alternative audit procedures. Consequently, the impact on the value of property, plant and equipment and corresponding effect on accumulated surplus cannot be determined.

Provisions

32. The following unexplained differences were found between the amounts disclosed in note 15 and 14.1 to the financial statements and the actuarial valuation reports:

Disclosure	Amount according to the financial statements	Amount as per actuarial valuation report	Difference – Overstatement / (understatement)
Post employment medical benefit liability according to note 14.1 to the financial statements.	4 888 341	3 195 514	1 692 827
Long service awards according to note 15 of the financial statements	2 320 852	1 228 193	1 092 659

The municipality did not reconcile the differences between the financial statements and the underlying accounting records and its accounting records did not permit the application of alternative procedures. Consequently, I was unable to satisfy myself as to the valuation and allocation of provisions of R7 209 193.

Trade and other payables

33. The municipality could not provide supporting documentation for the retention payables amounting to R3 804 053 as included in note 9 to the financial statements. The municipality's records did not permit the application of alternative audit procedures. Consequently, I was unable to satisfy myself as to the existence and valuation of retention payables of R3 804 053.
34. The municipality could not provide supporting documentation for unknown deposits amounting to R1 892 575 included as part of trade and other payables. The municipality's records did not permit the application of alternative audit procedures. Consequently, I was unable to satisfy myself as to the existence and valuation of unknown deposits amounting to R1 892 575.

Trade and other receivables

35. Trade and other receivables from exchange transactions as disclosed in note 2 to the financial statements, include debtors with credit balances amounting to R483 498 that was not reclassified as trade and other payables. Consequently, trade and other receivables and trade and other payables are understated by R483 498.
36. Consumer debtors balance of R23 158 395 as disclosed in note 2 to the financial statements does not agree to the balance of R37 547 653 according to the debtors age analysis. The entity did not reconcile the difference of R14 389 258 between the financial statements and the underlying accounting records. Consequently, the consumer debtors balance is overstated by R14 389 258. I was unable to determine the effect on the other account balances or classes of transactions contained in the financial statements.

37. The municipality could not provide sufficient appropriate audit evidence to support journal entries of R3 185 921 debited and R3 754 494 credited to trade and other receivables from exchange transactions. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness and valuation of trade and other receivables from exchange transactions stated at R10 389 842 in note 2 to the financial statements.
38. The municipality could not provide sufficient appropriate audit evidence to support journal entries of R291 679 credited to trade and other receivables from non-exchange transactions. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness and valuation of trade and other receivables from non-exchange transactions stated at R12 768 555 in note 3 to the financial statements.
39. The municipality could not provide sufficient appropriate audit evidence to support journal entries of R20 792 024 debited and R886 802 credited to other current financial assets. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness and valuation of other current financial assets stated at R12 519 594 in note 4 to the financial statements.
40. The municipality could not provide sufficient appropriate audit evidence to support the suspense accounts amounting to R2 413 027 disclosed as other current financial assets. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness and valuation of other current financial assets stated at R12 519 594 in note 4 to the financial statements.
41. The municipality could not provide sufficient appropriate audit evidence to support sundry debtors of R5 593 977 included in trade and other receivables from non-exchange transactions stated at R5 593 977 in note 3 to the financial statements. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness and valuation of trade and other receivables from non-exchange transactions stated at R5 593 977 in note 3 to the financial statements.
42. The municipality could not provide sufficient appropriate audit evidence to support other debtors as disclosed in note 2 to the financial statements amounting to R4 486 779. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the valuation of Trade and other receivables from exchange transactions amounting to R10 389 842.
43. The municipality classified rates as an exchange transaction. This is inconsistent with the definitions as provided in *Standards of Generally Recognised Accounting Practice*, GRAP 9.12 *Revenue from exchange transactions* and GRAP 23.05 *Revenue from non-exchange transactions*. There is no exchange of services for rates and should therefore be classified as a non-exchange transaction.

44. Interest receivable for the year from overdue debtor accounts was included in Trade and other receivables from exchange transactions. This is inconsistent with the definitions as provided in SA Standards of Generally Recognised Accounting Practice, GRAP 9.12 *Revenue from exchange transactions* and GRAP 23.05 *Revenue from non-exchange transactions*. There is no exchange of services for interest and it should therefore be classified as a non-exchange transaction.
45. The comparative amount for trade and other receivables as disclosed as a credit amount on the face of the statement of financial performance amounting to R898 186 do not agree to the amount of R2 626 380 as disclosed on note 2 to the financial statements.

Investments

46. I have noted that investments amounting to R10 106 877 have been incorrectly included as part of current financial assets. As a result, current financial assets are overstated and investments understated by R10 106 877.

Finance lease liability

47. We have recalculated the values of net finance leases as disclosed in note 13 to the financial statements and noted a difference amounting to R761 368 due to the fact that the municipality has not capitalised the assets at the present value of the minimum lease payments as required by Standards of Recognised Accounting Practice, GRAP 13 par 26 *Leases*. As a result, the finance lease liability as disclosed in the financial statements is overstated by R761 368.

Value Added Tax

48. The VAT receivable at year-end to not agree to the amount according to the financial statements, as my audit revealed an unexplained difference of R13 162 540. No reconciliations were performed by the municipality and the municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the valuation of VAT receivable amounting to R8 288 765 and the VAT payable amount amounting to R5 968 253.
49. Section 17 of the Value Added Tax Act (Act 89 of 1991) states that where goods or services are acquired or imported by a vendor partly for consumption, use or supply in the course of making taxable supplies and partly for another intended use, the input tax, shall be an amount which bears to the full amount of such tax or amount, the same ratio as the intended use of such goods or services in the course of making taxable supplies bears to the total intended use of such goods or services. I have noted that the municipality claimed the full input tax and not the applicable portion as stipulated by section 17. Reports were not available to enable me to determine the restatement required and the municipality's records did not permit the application of alternative audit procedures. Consequently, I am unable to satisfy myself as to the accuracy and completeness of expenses and the valuation of the VAT receivable as disclosed in the financial statements.

Provision for doubtful debts

50. The municipality was unable to provide me with the assumptions and supporting

calculations for the provision of doubtful debts amounting to R12 768 555 as disclosed in note 2 to the financial statements. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness and valuation of the provision for doubtful debts stated at R12 768 555 in note 2 to the financial statements.

51. The International Financial Reporting Standard, IFRS 7, *Financial Instruments: Disclosures*, requires the municipality to disclose an analysis of the age of the financial assets that are past due as at the end of the reporting period but not impaired, and an analysis of financial assets that are individually determined to be impaired, including the factors the entity considered in determining that they are impaired. The municipality has not disclosed the details as required by IFRS 7.

Revenue

52. Investment revenue as disclosed in the financial statements excludes an amount of R593 808 on account of unexplained difference between the bank confirmations and the financial records of the municipality.
53. The municipality could not provide sufficient appropriate audit evidence to support revenue journal debit entries amounting to R1 761 277. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness, accuracy, existence and classification of revenue.
54. Files supporting electricity readings could not be submitted for audit purposes. The municipality's records did not permit the application of alternative audit procedures. As a result, I am unable to verify the completeness of electricity revenue as disclosed in the financial statements.
55. I have recalculated rates levied by the municipality and noted an extrapolated difference of R5 991 562. As a result, revenue recognised for rates are understated by R2 632 541.
56. The municipality implemented a flat rate of R50 per month for certain areas where no metres have been installed, resulting in consumers not being billed according to their actual consumption. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of revenue.
57. There was no system of control over revenue derived from the sale of prepaid electricity on which I could rely for the purpose of my audit, and there were no satisfactory audit procedures that I could perform to obtain reasonable assurance that all rental income was properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of prepaid electricity income amounting to R1 614 232.
58. There was no system of control over revenue derived from agency services rendered to the Department of Transport on which I could rely for the purpose of my audit, and there were no satisfactory audit procedures that I could perform to obtain reasonable assurance that all agency income was properly recorded. Consequently,

I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of agency income of R65 225.

59. The municipality has not compiled a supplementary valuation roll for four of its municipal areas, on which it based the calculation of its property rates. The municipality's records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the accuracy and completeness property rates amounting to R3 359 021 as disclosed in note 16 to the financial statements.
60. The municipality has not separately disclosed on the face of the statement of financial performance its revenue from non-exchange transactions and revenue from exchange transaction. This is inconsistent with the definitions as provided in Standards of Generally Recognised Accounting Practice, GRAP 9 *Revenue from exchange transactions* and GRAP 23 *Revenue from non-exchange transactions*.

Unspent conditional grants

61. Comparative figures for unspent conditional grants and receipts as disclosed in note 12 to the financial statements includes an unexplained difference amounting to R616 767 between prior years' audited financial statements and the comparative balance disclosed in the current year financial statements. Consequently, the comparative amount for unspent conditional grants and receipts are understated by R616 767.

Disclaimer of opinion

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

Additional matter

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

Unaudited supplementary schedules

63. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

64. 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

65. 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.

66. 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 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 *Framework for managing programme performance information (FMPP)*.
67. The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
68. The material findings are as follows:

Usefulness of information

Presentation

69. Section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires the municipality to disclose the measures taken to improve its performance in the annual performance report where the planned targets were not achieved. Adequate and reliable corroborating evidence could not be provided for 81% of the measures taken to improve its performance as disclosed in the annual performance report. The municipality's records did not permit the application of alternative audit procedures due to the limitations placed on the scope of my work. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the validity, accuracy and completeness of the measures taken to improve its performance.

Consistency

70. Section 41(c) of the MSA requires that the integrated development plan should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 35% of the reported objectives of the municipality are not consistent with the objectives as per the approved integrated development plan. This is the result of the annual performance report not being properly reviewed by management.
71. Section 41(c) of the MSA requires that the integrated development plan should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 42% of the reported indicators of the municipality are not consistent with the objectives as per the approved integrated development plan. This is the result of the annual performance report not being properly reviewed by management.
72. The MSA, section 41(c) requires that the integrated development plan should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 99% of the reported targets of the municipality are not consistent with the objectives as per the approved integrated development plan. This is the result of the annual performance report not being properly reviewed by management.

Measurability

73. The National Treasury *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 54% of the indicators/measures 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 did not receive the necessary training to enable application of the principles.
74. The National Treasury *FMPPi* requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 28% 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 did not receive the necessary training to enable application of the principles.
75. The National Treasury *FMPPi* requires that performance targets be measurable. The required performance could not be measured for a total of 93% of the targets. This was due to the fact that management was aware of the requirements of the *FMPPi* but did not receive the necessary training to enable application of the principles.
76. The National Treasury *FMPPi* requires that the time period or deadline for delivery be specified. A total of 100% 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 did not receive the necessary training to enable application of the principles.

Relevance

77. The National Treasury *FMPPi* requires that the indicator should relate logically and directly to an aspect of the institution's mandate, the realisation of strategic goals and objectives. A total of 80 % of indicators/measures did not relate logically and directly to an aspect of the institution's mandate and realisation of strategic goals and objectives as per the five year integrated development plan. This was due to the lack of development and implementation of proper performance planning and management practices to provide for the development of performance indicators and targets included in the integrated development plan.

Reliability of information

Validity

78. The National Treasury *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 90% of basic service delivery programme. This was due to limitations placed on the scope of my work due to the absence of information systems and the institution's records not permitting the application of alternative audit procedures.

Accuracy

79. The National Treasury *FMPPi* requires that the indicator be accurate enough for its intended use and respond to changes in the level of performance. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the accuracy of the actual reported performance relevant to 90% of the basic service delivery programme. This was due to limitations placed on the scope of my work due to the absence of information systems and the institution's records not permitting the application of alternative audit procedures.

Completeness

80. The National Treasury *FMPPi* requires that documentation addressing the systems and processes for identifying, collecting, collating, verifying and storing information be properly maintained. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the completeness of the actual reported performance relevant to 90% of the basic service delivery programme. This was due to limitations placed on the scope of my work by the institution's records not permitting the application of alternative audit procedures.

Additional matter

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

Achievement of planned targets

81. Of the total number of 84 planned targets, only 10 targets were achieved during the year under review. This represents 88% of total planned targets that were not achieved during the year under review. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process.

Compliance with laws and regulations

82. I performed procedures to obtain evidence that the entity has 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:

Budgets

83. The municipality incurred expenditure that was not budgeted for and incurred expenditure 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.

Annual financial statements, performance and annual report

84. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors were not adequately corrected, which resulted in the financial statements receiving a disclaimer of opinion.
85. The accounting officer did not submit the financial statements for auditing within two

months after the end of the financial year, as required by section 126(1)(a) and 126(2) of the MFMA.

86. The accounting officer did not make the 2010-11 annual report public immediately after the annual report was tabled in the council, as required by section 127(5)(a) of the MFMA.
87. We were unable to obtain evidence that the accounting officer made public the council's oversight report on the 2010-11 annual report within seven days of its adoption, as required by section 129(3) of the MFMA.
88. The municipality did not give effect to its integrated development plan and conduct its affairs in a manner which was consistent with its integrated development plan, as required by section 36 of the MSA and Municipal planning and performance management regulation 6.
89. The annual performance report for the year under review does not include the performance of the municipality and its external service providers, as required by section 46(1)(a)(b) and(c) of the MSA.

Audit committee

90. The audit committee did not advise the council on matters relating to internal financial control and internal audits, risk management, accounting policies, effective governance, performance management and performance evaluation as required by section 166(2)(a) of the MFMA.
91. The audit committee did not advise the council of the municipality on the adequacy, reliability and accuracy of financial reporting and information as required by section 166(2)(a)(iv) of the MFMA.
92. The audit committee did not respond to the council on the issues raised in the audit reports of the Auditor-General, as required by section 166(2)(c) of the MFMA.
93. The audit committee did not review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the municipality, its efficiency and effectiveness and its overall level of compliance with the MFMA, DoRA and other applicable legislation, as required by section 166(2)(b) of the MFMA.
94. The performance audit committee did not review the municipality's performance management system and make recommendations to the council, as required by Municipal Planning and Performance Management Regulation 14(4)(a)(ii).
95. The performance audit committee did not review all the quarterly internal audit reports on performance measurement, as required by Municipal Planning and Performance Management Regulation 14(4)(a)(i).
96. The performance audit committee did not submit at least twice during the financial year, 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).

Strategic planning and performance monitoring

97. The municipality did not monitor performance, with regard to each of those development priorities and objectives and against the key performance indicators and targets set as required by section 41 of the MSA.
98. The municipality has not take steps to improve performance with regard to those development priorities and objectives where performance targets are not met] as required by section 41 of the MSA.

Internal audit

99. The internal audit unit 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 risk and risk management.
100. The internal audit did not audit the results of performance measurements, as required by section 45(1) (a) of the MSA and Municipal Planning and Performance Management Regulation 14(1) (a).
101. The internal audit unit did not access the functionality of the performance management system as required by the Municipal Planning and Performance Management Regulation 14(1)(b)
102. The internal audit unit did not audit the performance measurement on a continuous basis and submitted quarterly reports on their audits to the municipal manager and the performance audit committee as required by the Municipal Planning and Performance Management Regulation 14(1)(c).

Procurement and contract management

103. Goods and services with a transaction value of below R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) and (c).
104. Quotations were accepted 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 Regulation 16(b) and 17(b).
105. Contracts were awarded to bidders based on preference points that were not allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) (PPPFA) and its regulations.
106. Contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of the PPPFA.
107. Awards were made to providers who are persons in service of other state institutions or whose directors / principal shareholders are persons in service of other state institutions, in contravention of SCM regulation 44.
108. Sufficient appropriate audit evidence could not be obtained that all contracts were

awarded only to providers who's tax matters have been declared by the South African Revenue Services to be in order as required by SCM regulation 43.

109. The resolutions of council on all disciplinary proceedings did not include determinations as to whether the alleged misconduct was of a serious or of a less serious nature, as required by Disciplinary Regulations for Senior Managers 5(7)(a)
110. I was not provided with evidence that allegations of fraud and corruption laid against officials were investigated as required by SCM Regulation 38(1)(b).
111. Invitations for competitive bidding were not always advertised for a required minimum period of days, as required by SCM regulation 22(1) and 22(2).
112. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).
113. Bid adjudication was not always done by committees which were composed in accordance with SCM regulation 29(2).
114. Awards were made to bidders other than those recommended by the bid valuation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).

Financial misconduct

115. Evidence of the outcomes of investigations and that disciplinary hearings commencing within three months of the resolution to institute disciplinary action, as required by Disciplinary Regulations for Senior Managers 10(1)(a) were not provided for audit purposes.

Asset management

116. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
117. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.
118. Sufficient appropriate audit evidence could not be obtained that investments were made with proper care being exercised as quotations from financial institutions were not obtained, as required by Municipal Investment Regulation 5.

Expenditure management

119. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
120. The accounting officer did not take reasonable steps to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1) (d) of the MFMA.

121. We were unable to obtain audit evidence to confirm that unauthorised, irregular and fruitless and wasteful expenditure was recovered from the liable person, as required by section 32(2) of the MFMA.
122. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, as required by section 65(2)(b) of the MFMA.

Revenue management

123. Revenue received was not always reconciled on a weekly basis, as required by section 64(2)(h) of the MFMA.
124. An adequate management, accounting and information system was not in place which recognised revenue when it was earned, as required by section 64(2)(e) of the MFMA.

Human resources

125. The 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).
126. The Fourth Schedule of the Income Tax Act, 1962 (Act No. 58 of 1962) requires employers to deduct employees' tax from the employee's salary. Differences were found between the PAYE recalculated and the amount deducted from the salaries of employees that could not be explained.

Internal Control

127. I considered internal control relevant to my audit of the financial statements, 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 disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

128. Effective oversight was not exercised as those charged with governance did not ensure that management take adequate and timely steps to implement corrective actions.

Financial and performance management

129. A lack of adequate technical knowledge within management with regard to the preparation of financial statements and a lack of adherence to laws and regulations resulted in the disclaimer of opinion on the financial statements.
130. A lack of technical knowledge in the finance section with regard to new accounting standards and legislation applicable to the municipality to adequately perform their functions relating to regular reconciliations, adherence to laws and regulations and reporting against predetermined objectives.

131. There is no monitoring of, and controls within the performance management process to ensure performance against predetermined objectives are useful and reliable

Governance

132. Management's ineffectiveness with the implementation of recommendations from internal and external audit prevented the audit committee from promoting accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

Auditor-General

Polokwane
31 July 2013



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence