

REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE AND COUNCIL ON LEPELLE NKUMPI MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the financial statements of the Lepelle Nkumpi Municipality, which comprise the statement of financial position as at 30 June 2012, the statements of financial performance, changes in net assets and cash flows 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 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, 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

Property, plant and equipment

4. I was unable to verify the existence of infrastructure assets amounting to R8 910 001. The municipality's accounting records did not in all instances include information on the location on the assets and where locations were included, such locations were not accurate. The municipality's records did not permit the application of alternative audit procedures regarding the existence of the infrastructure assets. Consequently I was unable to determine whether any adjustment relating to infrastructure assets in the financial statements was necessary.
5. I identified assets amounting to R2 745 677 during my physical verification which were not recorded in the accounting records and financial statements. The valuation and completeness of the assets could not be ascertained and the municipality's records did not permit the application of alternative audit procedures regarding the completeness, valuation and classification of the aforementioned assets included in the statement of financial position.
6. Included in note 7 to the financial statements is show grounds, community halls, roads, buildings and work in progress amounting to R25 189 402, R34 310 368, R2 512 247, R5 149 397 and R23 190 083 respectively, which were not separated into parts (components), when those parts are significant in relation to the total cost of the item in accordance with SA Standards of GRAP 17, *Property, plant and equipment*. I have not

determined the correct net carrying amount of community and infrastructure assets as it was impractical to do so.

7. Property, plant and equipment as disclosed in note 7 to the financial statements amounting to R247 042 071 does not reconcile to balance of as per the underlying accounting records and the fixed asset register of the municipality. Sufficient appropriate audit evidence or explanations could not be provided for this difference. Consequently I was unable to determine whether any further adjustments were necessary to the amount disclosed for property, plant and equipment.
8. Included in note 7 to the financial statements is land amounting to R13 940 705 which includes land owned by tribal authorities amounting to R1 899 625. As a result of the matters reported on in the preceding paragraphs, I am unable to determine the impact on property, plant and equipment.
9. Included in property plant and equipment as disclosed in note 7 to the financial statements is work in progress amounting to R23 190 083 which was not disclosed as a separate line item in accordance with Standards of SA Standards of GRAP 17, *Property, plant and equipment*. Furthermore, the work in progress in the financial statements differs from the amount reflected in the underlying accounting records by R21 995 734. Sufficient appropriate audit evidence or explanations regarding this difference could not be provided. Consequently I was unable to determine whether any further adjustments were necessary to the amount disclosed for property, plant and equipment..
10. Included in property, plant and equipment are duplicated assets to the value of R1 792 249. Due to the matters reported on in the preceding paragraphs, I am unable to determine the impact on property, plant and equipment in the financial statements.
11. With reference to the above paragraphs, I was unable to verify the accuracy of the depreciation disclosed in the statement of financial performance amounting to R14 909 674 and the corresponding accumulated depreciation amounting to R 146 028 524.

Trade and other payables from exchange transactions

12. Staff leave accrual to an amount of R3 023 805 (2011: R3 114 490) as disclosed in note 8 to the financial statements was not assessed for the probability of a long term provision in terms of the SA Standards of GRAP 25, *Employee benefits*. The standard requires measurement to be based on an actuarial valuation or the projected unit method. Further, the leave schedule, supporting the leave accrual figure of R3 023 805 did not contain information on the opening balances, the leave days accrued and the leave days taken for each employee during the financial year. The municipality had measured the balance based on actual leave days and basic salaries only. Because of the nature of this liability, I was unable to confirm or verify by alternative means the value of this balance contained in the financial statements.
13. The municipality could not provide sufficient appropriate audit evidence to support the bank unallocated deposits and other suspense accounts amounting to R3 416 261 (2011: R1 312 100), included in other creditors as disclosed in note 8 to the financial statements. Consequently I was unable to determine whether any adjustments to this balance in the financial statements were necessary.
14. I was unable to obtain sufficient appropriate audit evidence for deferred income (commission Capricorn District Municipality) of R17 747 822 (2011: R57 612 942) included in note 8 to the financial statements. I was unable to confirm this balance by alternative means; consequently I was unable to determine whether any adjustments were necessary to the amount disclosed for deferred income in the financial statements.

15. Included in the retentions balance of R12 223 952 in note 8 to the financial statements are journal entries to the value of R2 309 377 for which no sufficient appropriate audit evidence could be provided. Furthermore, I identified retentions from the retention certificate to the amount of R1 010 594 that were not included in the accounting records and financial statements. Consequently I was unable to determine whether all retentions were recorded and whether any adjustments relating to this balance in the financial statements were necessary.
16. Retentions as disclosed in note 8 to the financial statements amounting to R12 223 952 does not reconcile to the balance of as per the underlying accounting records of the municipality. Sufficient appropriate audit evidence or explanations could not be provided for this difference. Consequently I was unable to determine whether any further adjustments were necessary to the amount disclosed for retentions.

Current portion of unspent conditional grants and receipts

17. The municipality did not account for unspent conditional grants surrendered amounting to R3 265 000 in note 12 to the financial statements. Consequently, the current portion of unspent conditional grants and receipts and revenue is overstated by R3 265 000.

Value Added Tax (VAT) receivable and payable

18. VAT receivable as disclosed in note 11 to the financial statements amounting to R 17 109 959 (2011: R 8 638 852) does not reconcile to balance of as per the underlying accounting records of the municipality. Sufficient appropriate audit evidence or explanations could not be provided for this difference. Consequently I was unable to determine whether any further adjustments were necessary to the amount disclosed for VAT receivable.
19. VAT receivable as disclosed in note 11 to the financial statements amounting to R17 109 959 does not reconcile to the balance of as per the underlying accounting records of the municipality. Sufficient appropriate audit evidence or explanations could not be provided for this difference. Consequently I was unable to determine whether any further adjustments were necessary to the amount disclosed for VAT payable.
20. The municipality incorrectly accounted for VAT refund amounting to R10 770 244 as an increase in VAT payable. Had the aforementioned VAT been accounted for correctly, the effect would have been to decrease VAT receivable and VAT payable by R10 770 244. The municipality has not accrued for VAT payable amounting to R3 156 289 on commission on the sale of water. Had the aforementioned VAT been accrued for, the effect would have been to increase the trade and other receivables from exchange transactions in the statement of financial position by R3 156 289 and increase the VAT payable to R15 279 327.
21. The municipality incorrectly accounted for vat input amounting to R1 418 445 on accruals and retention at year end. Had the aforementioned VAT been correctly accounted for, the effect would have been to increase the VAT input suspense account by R 1 418 445.

Revenue

22. Included in the statement of financial performance, is revenue from property rates of R48 630 227 (2011: R48 630 227), service charges of R4 319 629 (2011: R3 656 281) and commission on sale of water of R4 594 172 (2011: R3 630 990). The SA Standards of GRAP 9, *Revenue from exchange transactions*, requires that revenue be recognised if the probability of income can be established. Certain consumers of the municipality have lodged a legal dispute over the amount of services charges billed to their monthly accounts. The dispute dates back to the 2006-07 financial year and was still ongoing at the end of the financial year. Subsequent to year end the court ruled in favour of the consumers and therefore, the probability of revenue flowing to the municipality is

extremely remote. Furthermore, the municipality could not establish and indentify the individual consumer accounts affected by the dispute to enable a quantification of the amounts recognised in contravention of the above standard. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence and accuracy of the revenue amounts and the effect on the accumulated surplus of R400 766 299 (2011: R314 200 026).

23. The municipality did not accrue for commission income amounting to R17 747 822 (2011:R23 418 037) from the sale of water carried out behalf of the district municipality. Had the commission been accrued for, the effect would have been to increase the surplus for the period and the accumulated surpluses by R17 747 822 (2011: R 23 418 037) and to increase the receivables from non-exchange transactions in the statement of financial position by an equal amount.
24. The municipality did not accrue for equitable share amounting to R3 238 000 in respect of government grants and subsidies. Had these grants been accrued for, the effect would have been to increase the surplus for the period and the accumulated surpluses by R3 238 000 and to increase the receivables from non-exchange transactions in the statement of financial position by an equal amount.
25. Revenue from property rates as disclosed in note 15 to the financial statements amounting to R48 630 227 does not reconcile to balance of as per the underlying accounting records of the municipality. Sufficient appropriate audit evidence or explanations could not be provided for this difference. Consequently I was unable to determine whether any further adjustments were necessary to the amount disclosed for revenue from property rates.

Trade and other receivables from exchange transactions.

26. With reference to paragraph 22 above, I was also unable to determine the effect on the financial statements in respect to trade and other receivables from exchange transactions disclosed at R12 058 740 (2011: R22 024 139).
27. Service debtors as disclosed in note 2 to the financial statements amounting to R98 279 525 does not reconcile to balance of as per the underlying accounting records of the municipality. Sufficient appropriate audit evidence or explanations could not be provided for this difference. Consequently I was unable to determine whether any further adjustments were necessary to the amount disclosed for service debtors.
28. With reference to paragraph 22 above, I was also unable to determine the completeness over the impairment of the trade and other receivable from exchange transactions disclosed in note 2 at R86 220 785. Consequently I was unable to determine whether any adjustments to impairment provision in the financial statements were necessary.

Other receivables from non-exchange transactions.

29. I was unable to obtain sufficient and appropriate audit evidence for other receivables from non exchange transactions amounting to R82 716 176. The municipality's accounting records did not permit application of alternative audit procedures. Consequently, I was unable to obtain reasonable assurance regarding existence, accuracy and valuation of other receivables from non exchange transactions as disclosed on note 3 to the financial statements.

Impairment loss

30. The municipality did not account for movement on impairment loss amounting to R19 071 697 in the statement of financial performance. Had this been accounted for in the statement of financial position, the effect would have been to decrease accumulated surplus by R19 0710697.

Prior period errors

31. SA Standards of GRAP 3 *Accounting policy, change in accounting estimates and errors* requires that an entity correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by restating the comparative amounts for the period presented in which the error occurred. The municipality processed journals to creditors, receivables and property plant and equipment to correct the prior period. However, no disclosure was made in note 32 to the financial statements in terms of the requirements with above standard.

Presentation of budget information

32. SA Standards of GRAP 1 *Presentation of financial statements*, requires entities to provide information in their financial statements on whether resources were obtained and used in accordance with the legally adopted budget. The following non-compliance with regard to GRAP 1 was identified which was inadequate for the fair presentation of the financial statements:
- Reasons for variances with regard to budget information as required by GRAP 1 were not disclosed and the figures disclosed in the note do not reconcile to the statement of financial performance.

Accumulated surplus

33. The opening balance in accumulated surplus differs from the prior year's closing balance by R135 185 842. Furthermore, corrections for prior year errors amounting to R 55 933 464 were incorrectly accounted as restatement of opening balance of trade and other payables from exchange transactions. Had this been accounted for correctly, the effect would have been to increase accumulated surplus by R 55 933 464.

Commitments

34. Commitments to the value of of R7 360 634 were not included in the balance of R 101 115 659 in note 35 to the financial statements. Furthermore, I identified a difference amounting to R27 249 172 between the underlying financial records and the commitments disclosed in the financial statements for which no sufficient appropriate audit evidence could be provided or explanations regarding the difference. Consequently I was unable to determine whether any adjustment relating to commitments in the financial statements was necessary.

Contingent liabilities

35. I identified contingent liabilities amounting to R370 467 617 that was not included in contingent liabilities of R3 118 467 as disclosed in note 37 to the financial statements. Consequently, contingent liabilities are understated by R370 467 617.

Cash flow statement

36. With reference to the above paragraphs, I was unable to verify the accuracy of the change in the net cash and cash equivalents amount disclosed as R16 417 232 in the cash flow statement. Consequently I was unable to obtain sufficient evidence regarding the accuracy of the cash flow.

Irregular expenditure

37. The municipality procured goods and services amounting to R42 537 089 in contravention of the supply chain management requirements. The amount was not included in note 33.2 to the financial statements as required by section xx 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 disclosed in note 30 to the financial statements of R42 087 924 represents all the irregular expenditure incurred during the financial year under review.

Unauthorised expenditure

38. I identified unauthorised expenditure amounting to R13 916 876 that was not disclosed in note 33 to the financial statements. Consequently, unauthorised expenditure as disclosed in the financial statement is understated by R13 916 876.

Disclaimer of opinion

39. 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 these financial statements.

Emphasis of matters

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

Significant uncertainties

41. With reference to note 37 to the financial statements, the municipality is the defendant on a various lawsuits. The municipality is opposing the claims as it believes the claims to be fraudulent. The ultimate outcome of the matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

42. As disclosed in note 32 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of an error discovered during 30 June 2012 in the financial statements of the municipality for the year ended, 30 June 2011.

Additional matters

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

Unaudited supplementary schedules

44. 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.

Withdrawal from the audit engagement

45. Due to the limitation imposed on the scope of the audit by management, I have disclaimed my opinion on the financial statements. But for the legislated requirement to perform the audit of the municipality, I would have withdrawn from the engagement in terms of the ISAs.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

46. 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

47. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.

48. 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 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 (FMPPi)*.

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).

49. The material findings are as follows:

Usefulness of information

Presentation

50. Improvement measures in the annual performance report for a total of 100% of the planned targets not achieved were not disclosed as required by section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA). This was due to inadequate internal policies and procedures over the processes pertaining to the reporting of performance information.

Measurability

Performance targets not measurable

51. The National Treasury *FMPPi* requires that performance targets be measurable. The required performance could not be measured for a total of 34% of the targets relevant to implementing a differentiated approach to municipal financing, planning and support and improving access to basic services priorities. 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.

Performance indicators not well defined

52. The National Treasury *FMPPi* requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 35% of the indicators relevant to implementing a differentiated approach to municipal financing; planning and support and improving access to basic services priorities 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.

Performance indicators not verifiable

53. The National Treasury *FMPPi* requires that it must be possible to validate the processes and systems that produce the indicator. A total of 100% of the indicators relevant to implementing a differentiated approach to municipal financing, planning and support and

improving access to basic services priorities were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the lack of key controls in the relevant systems of collection/collation/verification/storage of actual performance information.

Reliability of information

Reported indicators not supported by sufficient appropriate evidence (validity, accuracy and completeness)

54. 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 validity of the actual reported performance relevant to 100% of implementing a differentiated approach to municipal financing; planning and support and improving access to basic services priorities. This was due to limitations placed on the scope of my work due to the absence of information systems.

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

Achievement of planned targets

62. Of the total number of planned targets, only 101 targets were achieved during the year under review. This represents 65% of total planned targets that were not achieved during the year under review. This was due to under spending of the budget relevant to the improving access to basic services development priority.

Compliance with laws and regulations

63. 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:

Strategic planning and performance management

64. The municipality did not afford the local community at least 21 days to comment on the final draft of its integrated development plan before the plan was submitted to council for adoption, as required by regulation 15(3) of the Municipal Planning and Performance Management Regulations.

Budgets

65. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

Annual financial statements, performance and annual reports

66. 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 and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.

Internal audit

67. The internal audit unit did not assess the extent to which the performance measurements were reliable in measuring the performance of the municipality on key and general performance indicators, as required by Municipal Planning and Performance Management Regulation 14(1)(b)(i).

Expenditure management

68. Payments were made without the approval of the accounting officer or a properly authorised official as required by section 11(1) of the MFMA.
69. An effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, was not in place as required by section 65(2)(a) of the MFMA.
70. The accounting officer did not take effective steps to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
71. 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

72. A credit control and debt collection policy was not implemented, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of MFMA.
73. Revenue received was not always reconciled on a weekly basis, as required by section 64(2)(h) of the MFMA.
74. 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.

Assets management

75. 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.
76. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.
77. The council did not approve the investment policy of the municipality, as required by Municipal Investment Regulation 3(1) (a).

Financial misconduct

78. All allegations of misconduct were not tabled before council, as required by Disciplinary Regulations for Senior Managers 5(2).
79. The council did not appoint an independent investigator to investigate all allegations where there were reasonable cause to believe an act of misconduct has been committed, as required by Disciplinary Regulations for Senior Managers 5(3)(a).

Liability management

80. A management, accounting and information system which adequately accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.
81. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the MFMA.

Procurement and contract management

82. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) and (c).

83. 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).
84. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Bid specifications for procurement of goods and services through competitive bids were drafted in a biased manner that did not allow all potential suppliers to offer their goods or services, in contravention of SCM regulation 27(2)(a).
85. Bid specifications were not always drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).
86. Bids were not always evaluated by bid evaluation committees which were composed of as required by SCM regulation 28(2).
87. Contracts and quotations were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding and quotations, in contravention of SCM regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.
88. Bid adjudication was not always done by committees which were composed in accordance with SCM regulation 29(2).
89. Contracts and quotations 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.
90. Contracts and quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of PPPFA.
91. Contracts were modified without tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.
92. Contracts were extended or modified without the approval of a properly delegated official, as required by SCM regulation 5.
93. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
94. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
95. Contract and quotations were awarded to providers that are listed on the National Treasury's database as persons prohibited from doing business with the public sector, in contravention of SCM regulation 38(1)(c).
96. 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.
97. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
98. 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 regulations 44.

99. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM regulation 46(2)(e) the code of conduct for councillors issued in terms of the MSA.
100. The accounting officer failed to implement measures to combat the abuse of the SCM system as per the requirements of SCM regulation 38(1) because awards were made to providers who:
- during the last five years, failed to perform satisfactorily on a previous contract with the municipality or municipal entity or other organ of state;
 - committed a corrupt or fraudulent act in competing for the contract;
 - had been convicted of fraud or corruption during the past five years
101. The prospective providers list for procuring goods and services through quotations was not updated at least quarterly to include new suppliers that qualify for listing, and prospective providers were not invited to apply for such listing at least once a year as per the requirements of SCM regulation 14(1)(a)(ii) and 14(2).
102. The municipality did not implement an SCM policy as required by section 111 of the MFMA.

Internal control

103. 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

104. Management does not always appropriately provide the required supervision and review over operations to ensure that the municipality complies with all laws and regulations and appoint the necessary skilled staff members. Action plans were developed, however, they were not fully implemented, hence the recurrence of findings identified in the prior year with regard to asset management and water related transactions.
105. The accounting officer did not provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the entity.

Financial and performance management

106. The financial statements and other information to be included in the annual report are not reviewed for accuracy and completeness by the accounting officer.
107. Controls over daily and monthly processing and reconciling of transactions were not implemented by the accounting officer
108. Compliance with laws and regulations was not reviewed and monitored by the accounting officer.
109. Standard operating procedures for performance information are not documented.

Governance

110. The risk assessment procedures implemented by the municipality were not adequate, as all risks affecting the municipality were not identified.
111. Internal audit does not follow up the implementation of internal and external audit recommendations to address audit outcomes.

Auditor-General

Polokwane

30 November 2012



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence