

REPORT OF THE AUDITOR-GENERAL TO NORTH WEST PROVINCIAL LEGISLATURE AND THE COUNCIL OF MORETELE LOCAL MUNICIPALITY

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

1. I have audited the consolidated financial statements of the Moretele Local Municipality and its subsidiary set out on pages xx to xx, which comprise the consolidated and separate statement of financial position as at 30 June 2012, the consolidated and separate statement of financial performance, statement of changes in net assets and the cash flow statement 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 consolidated financial statements

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

Auditor-General's responsibility

3. My responsibility is to express an opinion on the consolidated and separate financial statements based on 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

Revenue

4. The government grants and subsidies revenue are materially misstated as the municipality did not recognise the transaction when the grant funding are utilised, as required by South African Statement of Generally Recognised Accounting Practice, GRAP 23, *Revenue from non-exchange transactions*. The effects on the consolidated financial statements are that the revenue is understated by R56 296 574 and the other component affected could not be determined.
5. I was unable to obtain sufficient appropriate audit evidence for a difference of R15 340 109 (2011: R1 978 414) between the financial statements and the general ledger pertaining to revenue as disclosed in the statement of financial performance. I was unable to confirm occurrence, accuracy, classification and completeness of revenue by alternative means. Consequently I was unable to determine whether any adjustment relating to revenue in the financial statements was necessary.
6. I was unable to verify the completeness of revenue from service charges of R18 386 079 (2011: R14 816 306) disclosed in the statement of financial performance as the underlying accounting records did not permit execution of procedures to ensure revenue was accurately and completely recorded. I was unable to confirm accuracy and completeness of revenue by alternative means. Consequently I was unable to determine whether any

adjustment relating to revenue in the financial statements was necessary.

7. I was unable to obtain sufficient appropriate audit evidence for transactions amounting to R4 068 670. I was unable to confirm occurrence and accuracy of revenue by alternative means. Consequently I was unable to determine whether any adjustment relating to revenue in the financial statements was necessary.

Employee cost

8. I was unable to obtain sufficient appropriate audit evidence to confirm the occurrence and accuracy for transactions adjusting employee cost amounting to R6 641 205 (2011: R4 888 580). I was unable to confirm the occurrence and accuracy of these transactions by alternative means. Consequently I was unable to determine whether any adjustments relating to employee cost in the financial statements were necessary.

Expenditure

9. I was unable to obtain sufficient appropriate audit evidence to confirm occurrence and accuracy for the expenditure transactions of R106 989 302 (2011: R13 310 002) disclosed in note 18 to the consolidated and separate financial statements. I was unable to confirm the expenditure by alternative means. Consequently I was unable to determine whether any adjustments relating to expenditure and retained earnings were necessary.
10. I was unable to obtain sufficient appropriate audit evidence for a difference of R26 706 593 (2011: R5 178 750) between the financial statements and the general ledger pertaining to expenditure disclosed in note 20 to the consolidated and separate financial statements. I was unable to confirm occurrence, accuracy, classification and completeness of expenditure by alternative means. Consequently, I was unable to determine whether any adjustment relating to expenditure in the financial statements was necessary.
11. During 2010 I was unable to obtain sufficient appropriate audit evidence about expenditure transactions of R2 378 416. I was unable to confirm the expenditure by alternative means. Consequently I was unable to determine whether any adjustments to this amount and retained earnings were necessary. My audit opinion on the financial statements for the period ended 30 June 2011 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.
12. The municipality incorrectly account for Value Added Taxation in contravention with the Value-Added Tax Act No 89 of 1991. VAT is incorrectly deducted on transactions of which the vendors are not registered for VAT. Consequently, expenditure is understated and the VAT receivable is overstated by R2 891 429 respectively.

Property, plant and equipment

13. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment of R390 341 168 (2011: R337 841 874) disclosed in note 2 to the financial statements due to significant differences between the asset register and physical verifications as well as unreconciled differences between financial statements and the general ledger. I was unable to confirm the existence, completeness, valuation and rights of property, plant and equipment by alternative means. Consequently I was unable to determine whether any adjustment relating to property, plant and equipment in the financial statements was necessary.
14. SA Standards of GRAP, GRAP 17, *Property, Plant and Equipment* require that the useful life and residual value of an asset shall be reviewed at least at each reporting date.

Contrary to this requirement the municipality did not perform a reassessment of useful lives and residual values. I was unable to perform alternative procedures. Consequently, I was unable to satisfy myself as to the valuation of assets of R390 341 168 (2011:R337 841 874) as disclosed in note 2 to the financial statements or the accuracy, occurrence and completeness of the depreciation expense of R15 282 155(2011:R16 799 545) as per the statement of financial performance.

15. SA Statement of GRAP, GRAP 17, *Property, Plant and Equipment* require that the entity should consider items of property, plant and equipment for impairment losses at each reporting date. The municipality did not consider items of property, plant and equipment, except for buildings. I have identified items of property, plant and equipment with a carrying value of R12 514 507 subject to impairment during physical inspection. I could not determine the correct net carrying amount of the other items of property, plant and equipment as it was impracticable to do so.
16. Property on the valuation roll of the municipality amounting to R29 532 819 were not included in the financial statements. Consequently I was unable to verify completeness of property, plant and equipment.

Inventories

17. The municipality did not recognise water inventory as an asset at the end of the financial period. It furthermore did not recognise any inventory at 30 June 2012, in accordance with Standards of Generally Recognised Accounting Practice, GRAP 12, *Inventories*. There were no satisfactory alternative procedures that I could perform to obtain reasonable assurance in respect of the existence, valuation and completeness of inventories disclosed in note 4 of the separate and consolidated financial statements.

Receivables

18. SA Standard of GRAP, IAS 39, *Financial Instruments: Recognition and Measurement*, paragraph 58 requires that an entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. I was unable to obtain sufficient appropriate audit evidence for the calculation of the provision for impairment of receivables of R30 120 238 (2011: R64 496 316) disclosed in note 7 to the consolidated and separate financial statements. I have performed alternative audit procedures to determine reasonable impairment provision. The effect is that receivables are overstated by R19 588 111 (2011:R12 688 580).
19. I was unable to obtain sufficient appropriate audit evidence for a difference of R10 246 550 (2011: R25 560 362) between the financial statements and the general ledger. I was unable to confirm existence, completeness, valuation and allocation and rights and obligations of receivables by alternative means. Consequently, I was unable to determine whether any adjustment relating to receivables in the financial statements was necessary.
20. I was unable to obtain sufficient appropriate audit evidence for adjusting journals amounting to R10 966 714 (2011: R5 509 073) and unreconciled difference of R9 064 081 between the debtors listing and the general ledger included in receivables as disclosed in note 7 to the consolidated and separate financial statements. I was unable to confirm existence, valuation, completeness and rights and obligations of receivables by alternative means. Consequently I was unable to determine whether any adjustment relating to receivables in the financial statements was necessary.
21. My audit report for the prior year was modified due a journal transaction that was processed, which incorrectly decreased the receivables. The effects on the consolidated

financial statements are that receivables and accumulated surplus for the comparative year are understated by R5 025 093 respectively.

Value added taxation

22. I was unable to obtain sufficient appropriate audit evidence for transactions amounting to R14 491 726 included in Value Added Taxation disclosed in note 7 to the consolidated and separate financial statements. I was unable to confirm completeness, valuation and allocation and rights obligations pertaining to Value Added Taxation by alternative means. Consequently I was unable to determine whether any adjustment relating to VAT receivable in the financial statements was necessary.
23. I was unable to obtain sufficient appropriate audit evidence for a difference of R3 734 823 between the VAT balance in the general ledger and the last VAT return submitted. I was unable to confirm completeness, valuation and allocation and obligations pertaining to Value Added Taxation by alternative means. Consequently I was unable to determine whether any adjustment relating to VAT receivable in the financial statements was necessary.
24. I was unable to obtain sufficient appropriate audit evidence for a difference of R5 501 339 (2011: R21 879 033) between the financial statements and the general ledger included in VAT receivable disclosed in note 7 to the consolidated and separate financial statements. I was unable to confirm completeness, valuation and allocation and obligations pertaining to Value Added Taxation by alternative means. Consequently I was unable to determine whether any adjustment relating to VAT receivable in the financial statements was necessary.

Cash and cash equivalents

25. During 2011 I was unable to obtain sufficient appropriate audit evidence for cash and cash equivalents of R39 287 654 as disclosed in note 10 to the consolidated and separate financial statements due to unreconciled differences between the financial statements and the general ledger as well as unsupported adjusting journals. I was unable to confirm existence, completeness, valuation and allocation and rights and obligations pertaining to cash and cash equivalents by alternative means. Consequently I was unable to determine whether any adjustments to this amount were necessary. My audit opinion on the financial statements for the period ended 2011 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

Finance lease obligations

26. During 2011 I was unable to obtain sufficient appropriate audit evidence for transactions amounting to R14 232 570 and an unreconciled difference of R12 511 498 between the financial statements and the general ledger included in finance lease obligations. I was unable to confirm existence, completeness, valuation and allocation and rights and obligations pertaining to finance lease obligations by alternative means. Consequently I was unable to determine whether any adjustments to this amount were necessary. My audit opinion on the financial statements for the period ended 2011 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

Payables

27. During 2011 I was unable to obtain sufficient appropriate audit evidence to verify completeness of trade payables of R107 839 175 as disclosed in note 13 to the consolidated and separate financial statements. I was unable to confirm completeness of payables by alternative means. Consequently, I was unable to determine whether any adjustment relating to payables in the financial statements was necessary. My audit opinion on the financial statements for the period ended 2011 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.
28. I was unable to obtain sufficient appropriate audit evidence for a difference of R42 629 416 (2011:R5 991 220) between the financial statements and the general ledger and adjusting journals of R11 626 798 pertaining to payables disclosed in note 13 to the consolidated and separate financial statements. I was unable to confirm existence, completeness, valuation and allocation and rights and obligations by alternative means. Consequently, I was unable to determine whether any adjustment relating to payables in the financial statements was necessary.
29. An unexplained difference of R3 071 476 exists between the balance of unspent conditional grants in the grant register of R57 736 714 and the amount disclosed on the statement of financial position, as well as the amount disclosed in note 11 to the financial statements of R54 665 238.
30. Material unexplained and irreconcilable differences were identified between the comparatives of the current financial statements and the prior year financial statement. We were unable to obtain sufficient appropriate audit evidence and we were unable to confirm or verify the following differences in payables by alternative means.
 - Unspent conditional grants reflected as R32 236 596 is under/overstated by R12 221 510
 - Retention not disclosed is under/overstated by R2 814 043Consequently I was unable to determine what adjustments were made to payables.

Provisions

31. Sufficient appropriate audit evidence could not be provided for the assumptions utilised by the management expert in determining the provision. There were no satisfactory alternative procedures that I could perform to obtain reasonable assurance for these assumptions. Furthermore no provision has been made for the rehabilitation of landfill site in the prior year, in accordance with the SA Statements of GRAP, GRAP 19, *Provisions, Contingent Liabilities and Contingent Assets*. Due to the nature of this type of liability, I was not able to determine a reasonable value for the rehabilitation of landfill site in the current year. Provisions and expenditure are understated by an unquantifiable amount in the prior year.
32. Material unexplained and irreconcilable differences of R3 168 880 for provision were identified between the comparative figure disclosed in the current year financial statement and the figure disclosed previously. Consequently I was unable to determine what adjustments were made to provisions.

Accumulated surplus

33. My audit report for the prior year was modified due the municipality not reducing the capital replacement reserve to comply with the requirements of paragraph 6.3.1.1 of the GRAP implementation guide for municipalities as issued by National Treasury. The guide states that the capital replacement reserve shall be backed by cash funds. Reserves not backed by cash must be transferred to accumulated surplus. Consequently the accumulated surplus is understated and the reserves (CRR) is overstated by R356 757 625 in the prior year.
34. During 2011 I was unable to obtain sufficient appropriate audit evidence for movements amounting to R53 860 224 included in accumulated surplus. I was unable to confirm completeness and valuation of accumulated surplus by alternative means. Consequently, I was unable to determine whether any adjustments relating to accumulated surplus in the financial statements was necessary. My audit opinion on the financial statements for the period ended 2011 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.
35. I was unable to obtain sufficient appropriate audit evidence for a difference of R429 006 676 (2011: R153 777 236) and R356 086 296 (2011: R413 318 993) relating to accumulated surplus and revaluation reserve respectively, between the financial statements and the general ledger. I was unable to confirm existence, completeness, valuation and allocation and rights and obligations of accumulated surplus by alternative means. Consequently, I was unable to determine whether any adjustment relating to accumulated surplus in the financial statements was necessary.
36. The municipality utilised funds accounting, which is not allowed in terms of the Framework for preparation and presentation of financial statements by creating internal funds and reserves. All internal funds should be ring-fenced as part of accumulated surplus and should not be disclosed as an individual item. The municipality erroneously disclosed an internal fund, the capital replacement reserve as a separate item in the statement of financial position and statement of changes in net assets.

Aggregation of immaterial uncorrected misstatements

37. The financial statements as a whole are materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following elements making up the statement of financial position and the statement of financial performance:
- Revenue reflected as R200 001 448 is understated by an unknown amount (2011: R720 603).
 - Expenditure and employee cost reflected as R194 458 306 understated by R1 522 206 (2011: R729 968).
 - Non-current assets reflected as R390 341 169 understated by R226 092.
 - Current assets reflected as R68 685 737 understated by R809 574 in the prior year.
 - Current liabilities reflected as R154 766 774 understated by R1 602 544 (2011: R804 018).

Irregular expenditure

38. Section 125(2)(d)(i) of the MFMA requires disclosure of all material irregular expenditure. I was unable to obtain sufficient appropriate audit evidence for awards of R40 061 971 (2011: R 32 408 378) made in terms of the municipality's supply chain management policy. In addition, irregular expenditure incurred of R2 753 855 (2011: R1 898 240) due to

payments made in contravention with the municipality's supply chain management policy and irregular expenditure of R2 580 128 (2011:R7 606 865) due to utilisation of grant funding for operations was not disclosed in the notes to the financial statements. Consequently, I was unable to determine the understatement of irregular expenditure.

Unauthorised expenditure

39. Section 15 of the MFMA requires a municipality to incur expenditure only in terms of an approved budget. The municipality overspent the total amount appropriated in the municipality's approved budget by R7 294 481 (2011:R4 209 775). The unauthorised expenditure was not disclosed in the notes to the financial statements as required by section 125(2)(d)(i) of the MFMA.

Commitments

40. My audit report for the prior year was modified due the municipality not disclosing the capital commitments in the prior year, in accordance with the South African Statement of GRAP, GRAP 17, *Property, plant and equipment*. I was unable to obtain sufficient appropriate audit evidence or by alternative means to confirm the completeness of capital commitments for the comparative. Consequently I was unable to determine if the disclosure in the financial statements was complete for the comparative balance.

Related parties

41. The municipality did not disclose the remuneration of key management personnel or transactions with the controlled entity in accordance with the International Public Sector Accounting Standards, IPSAS 20, *Related-party disclosures*. The remuneration of key management personnel with an aggregate amount of R17 390 988 (2011: R3 522 650) and the transfer payment to the controlled entity of R250 000 in the prior year should be disclosed in financial statements.

Standards of Generally Recognised Accounting Practice reporting framework and disclosures in financial statements

42. The municipality did not comply with the following requirements in terms of the framework:
- The municipality did not present and disclose the Standards of GRAP that have been adopted during the current financial year and the potential impact of standards that have been approved but not yet adopted as required by Standards of Generally Recognised Accounting Practice, GRAP 1, *Presentation of Financial Statements*.
 - The municipality did not present and disclose the correction of prior year errors in the financial statements as required by Standard of Generally Recognised Accounting Practice, GRAP 3, *Accounting policies, changes in accounting estimates and errors*. Consequently, I was unable to satisfy myself on the presentation and disclosure of the prior year errors as disclosed in paragraph 4 of this report.
 - The municipality did not disclose budget information in the financial statements as required by Standards of Generally Recognised Accounting Practice, GRAP 1, *Presentation of Financial Statements*.
43. The municipality did not ensure that all disclosure requirements of International Financial Reporting Standards, IFRS 7, *Financial Instruments: Disclosures*, was disclosed.
44. An unexplained difference of R12 221 510 (2011: R2 042 235) exist between the balance

of accumulated surplus for the comparative of R118 011 178 in the statement of changes in net assets and the same total in the statement of financial position disclosed as R105 789 668.

45. The municipality disclosed accrual for leave pay of R1 999 449 (2011: R2 986 525) as part of provision incorrectly instead of payable from non-exchange transactions as required by the Standards of Generally Recognised Accounting Practice, Framework for the preparation and presentation of financial statement.
46. Section 123(1)&(2) of the MFMA requires that the notes to the annual financial statements of a municipality must disclose details of the allocations received, whether conditions have been met as well as the amounts spent per vote. The municipality did not disclose details of the allocations received, whether conditions have been met as well as the amounts spent per vote.
47. Material unexplained and irreconcilable differences were identified between general ledger and the financial statements. We were unable to obtain sufficient appropriate audit evidence and we were unable to confirm or verify the following elements making up the notes to the financial statements by alternative means:
 - Contributions to provision disclosed in note 7 reflected as RNil under/overstated by R19 923 670.
 - Debt impairment written off against provision disclosed in note 7 reflected as R27 808 000 under/overstated by R26 491 748.
 - Reversal of provision disclosed in note 7 reflected as R6 568 078 under/overstated by R6 568 078.
 - Debt impairment disclosed in note 21 reflected as R1 192 000 under/overstated by R18 731 670.
 - Contribution to debt impairment disclosed in note 21 reflected as R19 156 836 under/overstated by R 19 156 836.
 - Debt impaired disclosed in note 21 reflected as R20 438 836 under/overstated by R425 166.
48. Material unexplained and irreconcilable differences were identified between the comparatives of the current financial statements and the prior year financial statement. We were unable to obtain sufficient appropriate audit evidence and we were unable to confirm or verify the following elements making up the statement of financial position, statement of financial performance, statement of changes in net assets and note to the financial statements by alternative means.
 - Other receivables as disclosed in note 7 reflected as R3 491 118 under/overstated by R3 491 118
 - Other expenses as disclosed in note 20 reflected as R4 556 482 under/overstated by R4 113 134.Consequently I was unable to determine what adjustments were made to these components.

Distribution losses

49. Section 125(2)(d)(i) of the MFMA requires that the notes to the annual financial statements of a municipality must disclose the particulars of any material losses. The municipality did not conduct an evaluation of material losses relating to water and

electricity for the year under review and no disclosure was made in the financial statements in accordance with the requirements of the MFMA. I have calculated the distribution loss at 56% (2011: 56%) of purchases.

Disclaimer of opinion

50. 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

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

Material impairments

52. As disclosed in note 21 to the financial statements, material losses to the amount of R20 348 836 (2011: R35 348 239) were incurred as a result of impairment of receivables due to poor collection practices.

Material under spending of conditional grants

53. The municipality has materially under spent its conditional grants. At the date of this report, the under spending amounted to R54 665 238 (2011: R32 236 596). This under spending relates to mainly the municipal infrastructure grant and is due to projects not implemented.

Additional matters

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

Transactions entered into without due regard for economy

55. The municipality has also contracted with a service provider to render consulting services with regard to compilation of financial statements for the prior and current financial year. Compilation of financial statements is a function to be performed by the municipality's staff and the direct responsibility of the chief financial officer. No transfer of skills to the municipality's own staff has occurred during this process. The amount paid to the consultant during the year in the amount of R1 841 746 is considered to be excessive in relation to the service provided.
56. The municipality has also contracted with a service provider to render consulting services with regard to information technology services on a monthly basis, ongoing. A number of the functions performed by the consultant relates to non-specialised services, which should be rendered by the municipal staff, when properly trained. The amount paid to the consultant during the year in the amount of R1 767 628 (2011: R5 924 559) is considered to be excessive in relation to the service provided.
57. A service provider rendering consulting services with regards to VAT submissions. This function can be performed by municipal staff when properly trained. The consultant is entitled to 15% of the refunded amount, which in my view is an excessive percentage as the municipality has a limited amount of VAT Output it declares and would therefore mostly only have large amounts of VAT Input claims. The amount paid to the consultant during the year amounted to R3 792 289 (2011: R3 379 452) and the skills have not been transferred to the staff.

58. The municipality has also contracted with legal council to advise and assist with the legal proceedings of the municipality. A standard 5% drawing fee is added to every invoice, for which no economic justification exist. Invoices from this particular legal council appear to be excessive in relation to the description of the service rendered. Included in the amounts of R732 072 (2011: R4 692 795) paid to the service provider, I identified amounts that I viewed as excessive charges, whether agreed with attorney or not.

Unaudited supplementary schedules

59. The supplementary information set out on pages 32 to 41 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.
60. The supplementary explanations of budget variances contained in appendix E to the consolidated financial statements, do not form part of the financial statements. I have not audited these explanations and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

61. 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

62. The annual performance report was not presented for audit and consequently my findings below are limited to the procedures performed on the strategic planning and performance management documents.
63. The information was assessed to determine whether performance 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*.
64. The material findings are as follows:

Usefulness of information

65. The National Treasury *Framework for managing programme performance information (FMSSI)* 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 25% of the indicators relevant to various objectives were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was not aware of the requirements of the *FMSSI* and did not receive the necessary training to enable application of the principles.
66. The National Treasury *Framework for managing programme performance information (FMSSI)* requires that it must be possible to validate the processes and systems that produce the indicator. A total of 56% of the indicators relevant to various objectives 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.

67. The National Treasury *Framework for managing programme performance information (FMPPI)* requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 29% of the targets relevant to various objectives were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was not aware of the requirements of the *FMPPI* and did not receive the necessary training to enable application of the principles.
68. The National Treasury *Framework for managing programme performance information (FMPPI)* requires that performance targets be measurable. The required performance could not be measured for a total of 56% of the targets relevant to various objectives. This was due to the fact that management was not aware of the requirements of the *FMPPI* and did not receive the necessary training to enable application of the principles.

Compliance with laws and regulations

69. 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

70. The parent municipality with sole control of a municipal entity did not ensure that annual performance objectives and indicators for the municipal entity are established by agreement with the municipal entity and included in the municipal entity's multi-year business plan as required by section 93B(a) of the Municipal Systems Act.
71. The municipality did not establish a performance management system, as required by section 38(a) of the Municipal Systems Act.
72. The municipality did not establish mechanisms to monitor and review its performance management system, as required by section 40 of the Municipal Systems Act.
73. The municipality did not set measurable performance targets with regard to each development priority and objective and did not monitor performance, with regard to each of those development priorities and objectives and against the key performance indicators and targets set and did not measure and review performance at least once per year, with regard to each of those development priorities and objectives and against the key performance indicators and targets set and did 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 Municipal Systems Act.
74. The performance of Moretele Local Development Agency (Proprietary) Limited was not monitored and annually reviewed, as part of the annual budget process, as required by section 93B(b) of the Municipal Systems Act.

Budgets

75. Expenditure was incurred that was not budgeted for, in contravention of section 15 of the Municipal Finance Management Act.

76. Monthly budget statements were not submitted to the mayor, as required by section 71(1) of the Municipal Finance Management Act.

Annual financial statements, performance and annual reports

77. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act.

Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.

78. The 2010/11 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.
79. Written explanation was not submitted to council setting out the reasons for the delay in the tabling of the 2010/11 annual report in the council, as required by section 127(3) of the Municipal Finance Management Act.
80. The accounting officer did not make the 2010/11 annual report public immediately after the annual report was supposed to be tabled in the council, as required by section 127(5)(a) of the Municipal Finance Management Act.
81. The municipal council did not adopt an oversight report, containing comments on the annual report, within two months from the date on which the 2010/11 annual report was supposed to be tabled, as required by section 129(1) of the Municipal Finance Management Act.
82. The accounting officer did not make 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 Municipal Finance Management Act.
83. The annual report for the year 2011/12 was not presented to the audit team, as required by Municipal Finance Management Act Section 121.
84. The annual performance report for the financial year under review was not prepared and was not included in the annual report, as required by section 46 of the Municipal Systems Act and section 121(3)(c) of the Municipal Finance Management Act.
85. The annual performance report for the year under review does not include the performance of the municipality, as required by section 46(1)(a) of the Municipal Systems Act.

Audit committee

86. The audit committee did not advise the council and political office bearers 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.
87. The audit committee did not advise the council and political office bearers on matters

relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the Municipal Finance and Management Act.

88. The audit committee did not advise the council and political office bearers on matters relating to compliance with the MFMA and Division of Revenue Act, 2011 (Act No. 6 of 2011) (DoRA) as required by section 166(2)(a)(vii) of the MFMA.
89. 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 entity, its efficiency and effectiveness and its overall level of compliance with the MFMA and DoRA, as required by section 166(2)(b) of the Municipal Finance and Management Act.
90. 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 Municipal Finance and Management Act.
91. The 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).
92. The performance audit committee did not review the quarterly internal audit reports on performance measurement, as required by Municipal Planning and Performance Management Regulation 14(4)(a)(i).
93. The audit committee did not submit, an audit report on the review of the performance management system to the council, as required by Municipal Planning and Performance Management Regulation 14(4)(a)(iii)

Internal audit

94. The internal audit unit did not function as required by section 165(2) of the Municipal Finance Management Act, in that:
 - it did not prepare a risk-based audit plan and an internal audit programme for the financial year under review.
 - it did not report to the audit committee on the implementation of the internal audit plan.
 - it did not advise the accounting officer and report to the audit committee on matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management and loss control.
95. The internal audit unit did not report to the audit committee on matters relating to compliance with the MFMA and the DoRA and other applicable legislation, as required by section 165(2)(b) of the MFMA.
96. 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).
97. The internal audit unit did not assess the functionality of the performance management system, whether the performance management system complied with the requirements of the MSA and the extent to which the performance measurements were reliable in measuring the performance of the municipality on key and general performance

indicators, as required by Municipal Planning and Performance Management Regulation 14(1)(b)(i), (ii) and (iii).

98. The internal audit unit did not audit the performance measurements on a continuous basis and submitted quarterly reports on their audits to the municipal manager and the performance audit committee, as required by Municipal Planning and Performance Management Regulation 14(1)(c).

Procurement and contract management

99. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive, as tender documentation and quotations could not be obtained due to an inadequate record management system.
100. Sufficient appropriate audit evidence could not be obtained that persons in the service of the municipality as well as SCM officials, had declared any interested they or their close family member might have in contracts awarded by the municipality, as required by SCM regulations 46(2)(e)and(f) and by the code of conduct for councillors and staff members issued in terms of the Municipal Systems Act.
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.

Expenditure management

103. 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 Municipal Finance Management Act.
104. 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 Municipal Finance Management Act.
105. 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 Municipal Finance Management Act.
106. The accounting officer did not take effective steps to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) and 95(d) of the MFMA.
107. Unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure was not recovered from the liable person, as required by section 32(2) of the Municipal Finance Management Act.

Human resources management

- 108.The chief financial officer, director of social services, director of local economic development and director of corporate services were appointed without having met the prescribed minimum competency levels and the continued employment in the position was not made subject to meeting such requirements by 1 January 2013, as required by section 54A(2) of the Municipal Systems Act and regulation 18(2) on Minimum Competency levels.
- 109.Sufficient appropriate audit evidence could not be obtained that the municipality appointed a municipal manager and managers directly accountable to municipal manager who was not dismissed for financial misconduct after expiry of 10 years.
- 110.The competencies of financial and supply chain management officials were not assessed promptly in order to identify and address gaps in competency levels as required by the Municipal Regulations on Minimum Competency Levels reg 13.
- 111.The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury as required by the Regulations on Minimum Competency Levels reg14(2)(a).
- 112.Sufficient appropriate audit evidence could not be obtained that the annual report of the municipality reflect information on compliance with prescribed minimum competencies as required by the Regulations on Minimum Competency Levels reg14(2)(b).
- 113.No performance agreements have been signed by the financial officials and supply chain management officials, stating the minimum competencies to be obtained as a performance target, as required by Municipal Regulations on Minimum Competency Levels reg16(1).

Transfer of funds and/or conditional grants

114. Sufficient appropriate audit evidence could not be obtained to determine if the municipality did comply with the requirements of the grant framework, as required by section 12(1) of the Division of Revenue Act.
- 115.Sufficient appropriate audit evidence could not be obtained that the allocations for Financial Management Grant, Municipal System Improvement Grant, DWAF Operation and Maintenance Grant, Clean Community Services Grant, BPDM Grant, DoLG&H Grant and Municipal Infrastructure Grant were utilised for purposes other than those stipulated in the grant framework in contravention of section 15(1) of the Division of Revenue Act.
- 116.Unspent conditional grant funds not committed to identifiable projects and not approved by the National Treasury for retention were not surrendered to National Revenue Fund, as required by section 20(1) of the Division of Revenue Act.
- 117.Sufficient appropriate evidence could not be obtained that the municipality timeously submitted project registration forms, for projects it intended implementing in the financial year under review, to the department of local government, as required by the Division of Revenue Grant Framework, Gazette No.34280.
- 118.Sufficient appropriate evidence could not be obtained that the municipality submitted project implementation plans to the national department (CoGTA), as required by the Division of Revenue Grant Framework, Gazette No.34280.

Revenue

- 119.A credit control and debt collection policy was not implemented, as required by section

96(b) of the Municipal Systems Act and section 62(1)(f)(iii) of Municipal Finance Management Act.

120.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 Municipal Finance Management Act.

Asset and liability management

121.An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the Municipal Finance Management Act.

Waste management

122.The municipality operated their waste disposal site without a waste management license or permit, in contravention of section 20(b) of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008) (NEMWA) and section 20(1) of the Environmental Conservation Act, 1989 (Act No. 73 of 1989).

123.The municipality's waste management and disposal activities contravened or failed to comply with the requirements of section 28(1) of the National Environmental Management Act, 1998 (Act No. 107 of 1998) and sections 16(1)(c)&(d) and 26(1)(b) of the NEMWA.

Internal control

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

Leadership

125.The accounting officer did not implement adequate review regarding financial and performance reporting and this resulted in recurring material misstatements being reported and no annual performance reported being compiled. Policies and procedures did not adequately guide financial and performance activities. Action plans were not designed to address prior year audit findings and this reflected negatively on management's ability to address recurring audit findings.

Financial and performance management

126.Management failed to implement effective controls to ensure that information in the financial statements and the report on predetermined objectives were reliable before submission for audit. This was mainly due to the inability of management to address the prior years' audit findings and staff in the finance section not understanding the requirements of the financial reporting framework. The ignorance of management to address the repetitive findings relating to supply chain management regulations is indicative of financial misconduct.

Governance

127.The risk assessment process relating to financial and performance reporting and compliance with laws and regulations were not performed to identify and respond to risks that might affect the municipality negatively. The audit committee did not effectively fulfill its oversight function regarding the internal control environment over financial and performance information and compliance with laws and regulations.

Other reports

Investigations

128.There is an ongoing investigation conducted by the Special Investigation Unit into supply chain management irregularities incurred in the previous financial years. This investigation is not yet complete and no reports have been issued at the date of this report.

Rustenburg

28 February 2013



Auditing to build public confidence