



## REPORT OF THE AUDITOR-GENERAL TO THE NORTH WEST PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE KGETLENGRIVIER LOCAL MUNICIPALITY

### REPORT ON THE FINANCIAL STATEMENTS

#### Introduction

1. I was engaged to audit the financial statements of the Kgetlengrivier Local Municipality, which comprise the statement of financial position as at 30 June 2012, the statements of financial performance, changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages **XX to XX**.

#### 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 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 of opinion

##### Accumulated surplus

4. SA Standards of GRAP, GRAP 3, *Accounting policies, changes in accounting estimates and errors* require that the municipality disclose the nature and amount of any correction for each financial statement line item affected. I was unable to obtain sufficient appropriate audit evidence to verify the prior year adjustment made to the accumulated surplus of R5 534 345 as disclosed in the statement of changes in net assets. Furthermore, the municipality did not disclose the nature or amounts of this correction in the notes to the financial statements. Due to the nature of these changes, it was impracticable to confirm or verify the changes by alternative means. Consequently I was unable to determine whether any adjustments relating to the prior year adjustment as disclosed in statement of changes in net assets was necessary.

##### Property, plant and equipment

5. In the prior financial year, the municipality's asset register did not comply with all the requirements of SA Standards of GRAP, GRAP 17, *Property, plant and equipment*. Land assets of R2 868 000, buildings of R31 577 015, capital assets under construction of R8 500 016 and other assets of R41 769 823 could not be physically verified or confirmed by

alternative means. Land of R70 586 800 and other assets of R81 584 242 was not accounted for in the asset register. Consequently, property, plant and equipment and the accumulated surplus were understated by R67 719 800 in the prior year.

6. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment of R134 186 476 as disclosed in the statement of financial position and note 9 to the financial statements. I was unable to reconcile or verify by alternative means material differences between the financial statements, the general ledger and the asset register. I was unable to obtain title deeds to confirm the municipality's ownership of assets of R5 600 513. Land assets of R5 080 814 could not be physically verified or confirmed by alternative means whilst land of R35 607 600, infrastructure assets of R45 392 935 and other asset additions of R1 761 787 was not accounted for in the asset register. Also, I was unable to confirm or verify by alternative means various adjustments totalling R8 169 751 made to property, plant and equipment. Consequently I was unable to determine whether any further adjustments relating to property, plant and equipment or accumulated surplus was necessary.
7. The municipality did not review the residual values and useful lives of property, plant and equipment at each reporting date as required by SA Standards of GRAP, GRAP 17, *Property, plant and equipment*, this is evidenced by assets that have been fully depreciated whilst still being in use. Because of the nature of these assets, it was impracticable to confirm or verify by alternative means the valuation of these assets or the accuracy, occurrence and completeness of the depreciation expense. Consequently I was unable to determine whether any further adjustments relating to depreciation expense, accumulated surplus or the property, plant and equipment balance were necessary.

### **Inventory**

8. I was unable to obtain sufficient appropriate audit evidence for inventory of R3 376 434 (2011: R2 318 524) as disclosed in the statement of financial position and note 2 to the financial statements. The municipality did not have adequate systems in place to maintain records of its inventory. I was unable to confirm or verify the stated amounts by alternative means. Consequently I was unable to determine whether any adjustments relating to inventory or accumulated surplus was necessary.

### **Consumer debtors**

9. The municipality did not have adequate systems in place to maintain records of its consumer debtors. Included in consumer debtors are debtors of R2 711 699 with credit balances that should be accounted as trade payables, thereby understating consumer debtors and trade payables. In addition, I was unable to obtain sufficient appropriate audit evidence for consumer debtors of R30 149 480 (2011: R15 512 704) as disclosed in the statement of financial position and note 7 to the financial statements. I was also unable to confirm or verify by alternative means an adjustment of R2 193 331 made to the corresponding figure. Consequently I was unable to determine whether any further adjustments relating to consumer debtors or accumulated surplus were necessary.

### **Other receivables**

10. I was unable to obtain sufficient appropriate audit evidence for other receivables of R1 870 409 (2011: R6 791 460) as disclosed in the statement of financial position and note 5 to the financial statements. I was also unable to confirm or verify by alternative means an adjustment of R478 766 made to the corresponding figure. Furthermore, I was unable to reconcile or confirm by alternative means a difference of R922 825 between the financial statements and the general ledger. Consequently I was unable to determine whether any adjustments relating to other receivables or accumulated surplus were necessary.



## **Trade and other payables**

11. I was unable to obtain sufficient appropriate evidence for the corresponding figure for the VAT accrual of R8 184 593 as disclosed in note 10 to the financial statements resulting from the disclaimer of audit opinion in the prior year. I was also unable to confirm or verify by alternative means adjustments made to the corresponding figures for trade payables of R2 290 063 and the VAT accrual of R2 579 942. Consequently I was unable to determine whether any adjustment relating to the corresponding figure for trade payable and the VAT accrual was necessary.
12. I was unable to obtain sufficient appropriate audit evidence for trade creditors of R2 509 395 (2011 R5 052 416) included in the balance of R17 598 282 (2011 R8 737 033) as disclosed in note 10 to the financial statements. I was unable to confirm or verify these creditors by alternative means. Consequently I was unable to determine whether any further adjustments relating to trade creditors or accumulated surplus was necessary.

## **Other liabilities**

13. I was unable to confirm or verify by alternative means an adjustment made to the corresponding figure for other liabilities of R983 359 that resulted in a material difference between the closing balance reported in the 2011 financial statements to the opening balance reported in the 2012 financial statements. Consequently, I was unable to determine whether any adjustment relating to the corresponding figure for other liabilities in the financial statements was necessary.

## **Government grants and subsidies**

14. I was unable to obtain sufficient appropriate evidence for the corresponding figure for government grants and subsidies of R21 519 457 included in the total of R54 125 572 resulting from the disclaimer of audit opinion in the prior year. I was unable to confirm or verify the balance by alternative means. Consequently I was unable to determine whether any adjustment relating to the corresponding figure for government grants and subsidies was necessary.
15. SA Standards of GRAP, GAMAP 9, *Revenue*, require that conditional grants received should be recognised as deferred revenue until the conditions associated with the grants are met. Although expenditure of R17 169 149 was incurred in line with the conditions of the grants, only R7 130 502 was recognised as revenue in the statement of financial performance. As a result revenue is understated by R10 038 647. Due to the nature of the municipality's accounting records, I was unable to determine which other accounts were affected by the R10 038 647 not recognised as revenue. As a result, the deficit for the period may be overstated by the same amount. Additionally, I was unable to obtain sufficient appropriate audit evidence for journals entries of R1 079 254 and R500 000 relating to grant revenue. I was unable to confirm or verify the occurrence or accuracy of these entries by alternative means. Consequently I was unable to determine whether any further adjustments relating to revenue from government grants and subsidies and accumulated surplus were necessary.

## **Unspent conditional grants and receipts**

16. During 2011, I was unable to obtain sufficient appropriate audit evidence for unspent conditional grants of R27 182 122 and I was unable to confirm those liabilities by alternative means. Consequently I was unable to determine whether any adjustments to this amount or retained earnings were necessary, and therefore my audit opinion on the financial statement for 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. Furthermore, I was also unable to confirm or verify by alternative means adjustments of R345 611 made to the corresponding figure.



## Provision for landfill site

17. During the prior year, and contrary to the requirements of SA Standards of GRAP, GRAP 19, *Provisions contingent liabilities and contingent assets*, the municipality did not account for the cost to rehabilitate its landfill sites. Furthermore the finance cost and depreciation relating to this landfill site was also not accounted for. Due to the nature of these items I was unable to reliably estimate or confirm by alternative means the values not accounted for in the prior periods. Consequently, property, plant and equipment, provision for rehabilitation cost, finance cost and depreciation were understated, and I was unable to determine whether any further adjustments relating to the landfill site and the provision for its rehabilitation was necessary in the prior year financial statements.
18. As disclosed in the statement in financial position and note 13 to the financial statements the municipality has made a provision of R1 243 095 for environmental rehabilitation of its landfill site. However, contrary to the requirements of SA Standards of GRAP, GRAP 19, *Provisions contingent liabilities and contingent assets*, the municipality did not consider the time value of money in estimating the expected future expenditure required to settle the obligation. Due to the nature of these items I was unable to reliably estimate or confirm by alternative means the financial impact on the value of the provision. Consequently, the provision for environmental rehabilitation and operating expenditure is understated by an undetermined amount.

## Revenue

19. I was unable to obtain sufficient appropriate audit evidence for the corresponding figure for agency fees of R5 689 198 resulting from the disclaimer of audit opinion in the prior year. I was unable to verify or confirm the amount by alternative means. Consequently I was unable to determine whether any further adjustments relating to the corresponding figure for agency fees were necessary.
20. I was unable to obtain sufficient appropriate audit evidence to verify the accuracy of the corresponding figure of property rates of R3 900 676 resulting from the disclaimer of audit opinion in the prior year. Due to its nature, it was impracticable to confirm or verify the completeness of the amount by alternative means. Consequently I was unable to determine whether any adjustments relating to the corresponding figure for property rates were necessary.
21. During the prior year the municipality offset expenses of R1 912 867 against revenue from fines. This was done in contravention SA Standards of GRAP, GRAP 1, *Presentation of financial statements*, that requires that assets and liabilities, revenue and expenses, shall not be offset unless required or permitted by a Standard of GRAP. The cumulative effect of this and other individually immaterial uncorrected misstatements resulted in revenue from fines, expenses and the accumulated surplus being understated by R1 101 990 in the prior period. Additionally, I was unable to obtain sufficient appropriate audit evidence for revenue from fines of R1 675 032 included on total revenue of R103 915 883 as disclosed in the statement of financial performance for the current period. Consequently I was unable to determine whether any further adjustments relating to accumulated surplus or revenue from fines were necessary in the current or prior periods.
22. The credit control and debt collection bylaw of the municipality requires that interest be charged on all overdue consumer debtors and municipal accounts. Interest of R2 171 539 (2011: R849 297) was calculated by using incorrect monthly balances. Additionally, in the prior year interest of R781 820 was not charged on some overdue accounts. Consequently, the balances for interest received and consumer debtors, as disclosed in the statements of performance and financial position are overstated by R2 171 539 in the current year, and was understated by R1 631 117 in the prior year.



## **Operating expenses**

23. I was unable to obtain sufficient appropriate audit evidence for the corresponding figure for repairs and maintenance of R8 374 932, bulk purchases of R17 482 708 and general expenses of R22 148 890 included in total expenses of R99 175 093 resulting from the disclaimer of audit opinion in the prior year. I was unable to verify or confirm the amounts by alternative means. I was also unable to confirm or verify by alternative means adjustments made to the corresponding figures for personnel expenditure of R1 510 793, councillor remuneration of R1 011 554 and general expenses of R499 240. Additionally, I was unable to confirm or verify by alternative means the prior year bad debt provision of R12 923 939. Consequently I was unable to determine whether any further adjustments relating to these corresponding figures included in total operating expenses were necessary.
24. I was unable to obtain sufficient appropriate audit evidence for operating expenses of R34 596 741 included in total operating expenses of R121 998 224 as disclosed in the statements of financial performance. I was unable to confirm or verify the balance by alternative means. I was also unable to reconcile or confirm by alternative means differences of R1 204 949 for depreciation between the general ledger and the financial statements, and R6 194 957 between the financial statements and the payroll system. Consequently I was unable to determine whether any further adjustments relating to operating expenses or the deficit for the period as disclosed in the statement of financial performance were necessary.

## **MFMA compulsory disclosures**

25. Contrary to the requirements of section 124 of the MFMA the municipality did not disclose the particulars of salaries, allowances and benefits of R5 379 419 for political office bearers and councilors, and R3 672 069 for key management remuneration in the notes to the financial statements. The accounting officer did not include a statement of whether these salaries, allowances and benefits were within the upper limits of the framework envisaged by the Remuneration of Public Office Bearers Act, 1998 (Act No. 20 of 1998). Furthermore the municipality did not disclose arrears of R138 708 for rates and services owed by individual councilors, including the names of those councilors, to the municipality that were outstanding for more than 90 days.
26. Contrary to the requirements of section 125(1)(c) of the MFMA, the municipality did not disclose in the notes to the financial statements the total payments for pension and medical aid contributions, or whether any amounts were outstanding at the end of the financial year. Furthermore, the municipality did not disclose its distribution and reticulation losses as is required by section 125(2)(d)(iii). Due to the nature of these items I was unable to verify or reliably estimate the amounts not disclosed by alternative means.

## **Irregular expenditure**

27. Section 125(2)(d)(ii) of the MFMA requires that the municipality include particulars of irregular expenditure in the notes to the financial statements. The municipality did not disclose any irregular expenditure in the current or prior year financial statements. Irregular expenditure of R5 577 231 was incurred in the current year as a result of result of payments made in contravention of the municipality's supply chain management policy. Additionally, I was unable to obtain sufficient appropriate evidence that awards of R15 049 984 (2011: R29 759 722) was made in terms of the supply chain management requirements. I was unable to perform alternative audit procedures to confirm the completeness of irregular expenditure. Consequently I was unable to determine whether any further irregular expenditure should have been disclosed in notes to the financial statements.

## **Unauthorised expenditure**

28. The municipality did not make any disclosures for unauthorised expenditure in the financial statements in the prior or current period. In the prior year the municipality did not disclose



unauthorised expenditure of R10 306 876. Unauthorised expenditure of R17 279 560 was incurred in the current period. Consequently I was unable to determine whether any adjustments relating to unauthorised expenditure in the financial statements were necessary.

### **Contingent liabilities**

29. Contrary to the requirements of SA Standards of GRAP, GRAP 19, *Provisions contingent liabilities and contingent assets*, the municipality did not make any disclosures of contingent liabilities in the notes to the financial statements. Alternative procedures identified contingent liabilities of R2 026 000 for the current period, resulting in contingent liabilities being understated by this amount.

### **Commitments**

30. I was unable to obtain sufficient appropriate audit evidence for commitments of R6 257 160 included in total commitments of R19 836 742 as disclosed in note 16 to the financial statements. I was unable to confirm or verify the amount by alternative means. Additionally, alternative procedures identified commitments of R5 304 780 that were incorrectly calculated using the budget values instead of the contract values resulting in commitments being overstated by R5 304 780. Consequently, I was unable to determine whether any further adjustments relating to commitments in the financial statements were necessary.

### **Disclaimer of opinion**

31. 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.

### **Emphasis of matter**

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

### **Going concern**

33. The accounting officer's report on **XX** to the financial statements indicates that the Kgetlengrivier Local Municipality incurred a net loss of R18 441 678 during the year ended 30 June 2012 and, as of that date, the municipality's current liabilities exceeded its total assets by R115 374 289. These conditions, along with other matters as set forth in the accounting officer's report, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

### **Additional matter**

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

### **Unaudited supplementary schedules**

35. 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 annexures and, accordingly, I do not express an opinion thereon.

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

36. 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**

37. 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.
38. 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).
39. 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).
40. The material findings are as follows:

#### **Usefulness of information:**

41. Section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires the disclosure of measures taken to improve performance in the annual performance report where planned targets were not achieved. Adequate and reliable corroborating evidence could not be provided for 100% of all measures taken to improve performance as disclosed in the annual performance report. 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 validity, accuracy and completeness of the measures taken to improve performance.

#### **Reliability of information**

42. The National Treasury FMPPI requires that documentation addressing the systems and processes for identifying, collecting, collating, verifying and storing information be properly maintained. The municipality could not provide sufficient appropriate evidence to support any of the selected objectives. The municipality's records did not permit the application of alternative audit procedures regarding the validity, accuracy and completeness of the reported performance information. I was unable to obtain sufficient, appropriate audit evidence to verify the validity, accuracy and completeness of the actual performance reported in the annual performance report. This was due to a lack of a document management system.

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

43. I performed procedures to obtain evidence that the municipality 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:

#### **Strategy planning and performance management**

44. The municipality did not give effect to its integrated development plan and, as required by section 36 of the MSA and Municipal planning and performance management regulation 6.
45. Contrary to the requirements of section 40 of the MSA, the municipality did not establish mechanisms to monitor and review its performance management system. 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;



- 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,
- take steps to improve performance with regard to those development priorities and objectives where performance targets are not met as required.

## **Budgets**

46. The municipality 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.
47. Contrary to the requirements of section 52(d) of the MFMA, sufficient appropriate audit evidence could not be obtained that quarterly reports were submitted to the council on the financial state of affairs of the municipality within 30 days after the end of each quarter.
48. Contrary to the requirements of section 71(1) of the MFMA, monthly budget statements were not submitted to the mayor and relevant provincial treasury.

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

49. 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.
50. The annual performance report for the year under review does not include a comparison of the performance with set targets and a comparison with the previous financial year. In addition, sufficient appropriate audit evidence could not be provided to support the validity, accuracy and completeness of the measures taken to improve performance, as required by section 46(1)(b) and 46(1)(c) of the MSA.

## **Audit committee**

51. Contrary to the requirements of section 166(2)(b) of the MFMA, 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.

## **Internal audit**

52. 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).
53. The internal audit unit did not assess the functionality of the performance management system or 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).
54. 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**

55. Sufficient appropriate audit evidence could not be obtained that bid specifications for procurement of goods and services through competitive bids were drafted in an unbiased manner and by bid specification committees which were composed of one or more officials of

the municipality that allowed all potential suppliers to offer their goods or services, as required by SCM regulation 27(2)(a) and 27(3).

56. Contracts were extended without tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA and without the approval of a properly delegated official, as required by SCM Regulation 5.
57. 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. This resulted in the performance of contractors or providers not being monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
58. Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act and CIDB regulation 18.
59. 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).
60. 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. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).
61. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive. This is due to the contract performance and monitoring measures and methods of the municipality that are insufficient to ensure that an effective and adequate contract management system is in place to maintain records of supply chain processes and contractual obligations.

#### **Human resource management and compensation**

62. Contrary to the requirements of Municipal Regulations on Minimum Competency Levels regulation 13, the competencies of financial and supply chain management officials were not assessed promptly in order to identify and address gaps in competency levels.
63. 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 regulation 14(2)(a).
64. Sufficient appropriate audit evidence could not be provided that the performance agreements of the municipal manager, chief financial officer, senior managers, head of supply chain and supply chain management officials who did not have the minimum competencies, included the attainment of minimum competencies as a performance target, as required by Municipal Regulations on Minimum Competency Levels regulation 16(2) and 16(1).

#### **Expenditure management**

65. Contrary to section 65(2)(b) of the MFMA an adequate management, accounting and information system was not in place to account for creditors accounts and payments made by the municipality.
66. The accounting officer did not take reasonable steps to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
67. The municipality did not recover unauthorised, irregular or fruitless and wasteful expenditure from the liable person, as required by section 32(2) of the MFMA.

#### **Conditional grants received**

68. Contrary to section 12(1) of the DoRA the municipality did not comply with the requirements of the grant framework.



69. Contrary to section 20(1) of the DoRA, 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.
70. The municipality did not submit MFMA implementation plans to National Treasury to address weaknesses in financial management, as required by the Division of Revenue Grant Framework, Gazette No.34280.
71. The municipality did not submitted, within 20 days after the end of each month, its monthly expenditure reports to the national department (CoGTA), as required by the Division of Revenue Grant Framework, Gazette No.34280

### **Revenue management**

72. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which recognised revenue when it is earned, accounted for debtors and accounted for receipts of revenue, as required by section 64(2)(e) of the MFMA.

### **Asset management**

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

### **Liability management**

75. 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.
76. 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.

### **Waste management**

77. The municipality operated their waste disposal sites 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).
78. 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) and (d) and 26(1)(b) of the NEMWA.

### **Internal control**

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

### **Leadership**

80. Management failed to appoint sufficient appropriately skilled staff in key positions within the finance unit and training and development initiatives failed to address the underlying deficiencies that caused the matters to be repeatedly reported on in the audit report. Policies and procedures did not adequately guide financial and performance activities and failed to address the shortcomings in internal controls that resulted in the compliance deviations that



have been reported. Furthermore management's oversight was inadequate in preventing material misstatements in the financial statements.

### **Financial and performance management**

81. Management failed to implement proper record keeping or effective controls to ensure that information in the financial statements and the report on predetermined objectives were reliable before submission for audit, or readily available for audit purposes. This was mainly due to the inability of management to address the prior year audit findings. Management failed to prepare regular, accurate and complete performance reports that were supported and evidenced by reliable information. Review and monitoring of compliance with applicable laws and regulations were not effectively performed.

### **Governance**

82. The audit committee did not adequately provide the council with an authoritative and credible view of the financial position of the entity, its efficiency and effectiveness of the internal control environment and its overall level of compliance with the MFMA and the DoRA, resulting in the internal control environment over financial and performance information and compliance with laws and regulations being ineffective.

*Auditor - General*

Rustenburg

26 February 2013



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*