



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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the financial statements of the Ditsobotla 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), in the manner required by 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. During the prior year I was unable to obtain sufficient appropriate audit evidence for a difference of R180 805 552 between the accumulated surplus closing balance reported in the 2010 financial statements and the opening balance reported in the 2011 financial statements. I was unable to confirm the adjustments by alternative means. I was also unable to confirm by alternative means various adjustments of R20 629 786 made to the accumulated surplus in the current period. Consequently I was unable to determine whether any further adjustments relating to the current and prior year amounts disclosed for accumulated surplus in the statement of changes in net assets was necessary.

Property, plant and equipment

5. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment of R112 491 109 (2011: R119 434 985) as disclosed in note 4 to the financial statements. In the prior year, asset additions of R23 363 640 were not accounted for in the asset register. Furthermore, I was unable to reconcile by alternative means a difference of R11 212 241 (2011: R13 038 888) between the financial statements and the asset register. Assets of R106 188 401 (2011: R104 426 648) could not be physically verified, whilst land assets of

R572 785 335 (2011: R572 785 335), capital assets under construction of R38 070 991 (2011: R37 249 752) and other assets of R4 843 869 were not accounted for in the financial statements. I was unable to confirm by alternative means if repairs and maintenance of R4 659 629 should have been capitalised in the current year. I was unable to reconcile or verify by alternative means a difference of R11 436 227 between the financial statements and the asset register on additions and I was unable to confirm by alternative means asset additions of R12 994 150 (2011: R10 557 939). Additionally, I was unable to confirm by alternative means various adjustments totalling R13 958 745 (2011: R11 491 380) made to property, plant and equipment in the current period. Consequently I was unable to determine whether any further adjustments relating to property, plant and equipment was necessary.

6. 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 of R8 914 541 (2011: R8 706 899) that were unfit for use and had reached the end of their useful lives, but were still included in the asset register. Also included on the asset register are assets with carrying amounts of R0 and R1 whilst still being in use. Furthermore, the depreciation expense was incorrectly calculated by R3 909 737 (2011: R3 074 683), thereby overstating the depreciation expense and accumulated depreciation and understating the carrying value of assets and the accumulated surplus. Because of the nature of these assets, it was impracticable to confirm by alternative means the correct 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, accumulated surplus and property, plant and equipment were necessary.

Consumer receivables and provision for doubtful debt

7. I was unable to obtain sufficient appropriate audit evidence for consumer receivables of R74 022 053 (2011: R89 965 822) as disclosed in note 11 to the financial statements. I was unable to determine whether the municipality used objective evidence to calculate the provision for impairment of consumer receivables of R78 577 323 (2011: R78 577 323) as required by SA Standards of GRAP, IAS 39, *Financial instruments: recognition and measurement*. I was unable to confirm by alternative means the bad debt impairment of R56 423 645 (2011: R40 715 918) as disclosed in the statement of financial performance. Also, I was unable to confirm by alternative means various adjustments totalling R80 042 631 made to consumer receivables in the current period. Furthermore, included in consumer receivables are debtors of R2 644 746 (2011: R4 322 955) with credit balances that should be accounted for as trade payables, thereby understating consumer receivables and trade payables. An amount of R5 583 362 that was paid is included in consumer receivables, thereby overstating consumer receivables and consumer deposits. Consequently I was unable to determine whether any further adjustments relating to consumer receivables and the bad debt provision were necessary.

Trade and other receivables

8. I was unable to obtain sufficient appropriate audit evidence for trade and other receivables of R22 083 422 (2011: R7 700 189) as disclosed in note 10 to the financial statements. I was unable to confirm the balances by alternative means. An amount of R8 347 000 was incorrectly recognised as a debtor, overstating trade and other receivables and consumer deposits. Consequently I was unable to determine whether any adjustments relating to consumer deposits were necessary.

Consumer deposits

9. I was unable to obtain sufficient appropriate audit evidence for consumer deposits of R69 760 460 (2011: R18 964 439) as disclosed in note 17 to the financial statements. I was unable to confirm by alternative means various adjustments totalling R157 574 141 made to



consumer deposits. An amount of R66 180 439 included in the consumer deposits of R69 760 460 relates to unallocated receipts. Had these receipts been allocated correctly, the effect would have been to reduce the consumer debtors for the period and the consumer deposit liability in the statement of financial position with R66 180 439. I was unable to confirm the balances by alternative means. Consequently I was unable to determine whether any further adjustments relating to consumer deposits were necessary.

Trade and other payables from exchange transactions

10. In the prior year, included in the payables from exchange transactions of R55 603 305 as disclosed in note 15 to the financial statements were invoices of R5 602 949 that were paid before the financial year end, whilst invoices of R3 522 355 were not accrued for, thereby overstating accruals and expenditure and understating the accumulated surplus by R2 080 593. In addition, sufficient appropriate audit evidence was not available for accruals of R4 237 746. Consequently I was unable to determine whether any further adjustments were necessary to the accruals included in payables from exchange transactions in the prior year.
11. Also during the prior year I was unable to obtain sufficient appropriate audit evidence for trade payables of R22 030 764, payroll creditors of R624 565, deposits received of R7 801 and the salary control account of R740 291 included in payables from exchange transactions of R55 603 308 as disclosed in note 15 to the financial statements. I was unable to confirm the balances by alternative means. Consequently I was unable to determine whether any further adjustments were necessary to these amounts included in payables from exchange transactions in the prior year.
12. In the current year the municipality did not accrue for invoices in respect of goods and services received of R2 425 684. Had these invoices been accrued for, the effect would have been to reduce the surplus for the period and the accumulated surplus by R2 425 684 and to increase the accrued liability in the statement of financial position with the same amount. Furthermore, accrued leave pay of R9 118 223 as disclosed in note 15 to the financial statements include leave day accruals in excess of the days due to employees, thereby overstating accrued leave pay and employee related cost by R2 389 599.

Revenue

13. In the prior year, I was unable to obtain sufficient appropriate audit evidence for fines of R6 254 284, government grants and subsidies of R92 404 259, income from agency fees of R3 502 788, interest received from consumer receivables of R8 246 274, interest received from investments of R1 819 207, licenses and permits of R998 010, other income of R737 869 and rental of facilities and equipment of R627 891 included in total revenue of R263 504 722 as disclosed in the statement of financial performance. I was unable to confirm the amounts by alternative means. Consequently I was unable to determine whether any further adjustments relating to the prior year amounts disclosed for revenue was necessary.
14. I was unable to obtain sufficient appropriate audit evidence for service charges of R155 856 122 and government grants and subsidies of R46 950 650 included in total revenue of R244 006 848 as disclosed in the statement of financial performance. I was unable to confirm the amounts by alternative means. Consequently I was unable to determine whether any further adjustments relating to the amounts disclosed for revenue in the current period was necessary.
15. I was unable to obtain sufficient appropriate audit evidence to determine the completeness of revenue of R244 006 848 (2011: property rates of R19 560 415 and service charges of R129 353 725) as disclosed in the statement of financial performance. Due to its nature, it was impracticable to confirm the completeness of the amount by alternative means. Consequently I was unable to determine whether any adjustments relating to revenue were necessary.



Employee cost

16. Employee related cost of R90 491 874 as disclosed in note 23 to the financial statement is overstated by R9 186 718, due to payments made to medical aid and pension being overstated by R7 449 117 and payments made to PAYE, UIF and SDL being overstated by R1 737 601. The municipality did not maintain proper records of its employee related cost and I was therefore unable to determine the effect of this overstatement on other account balances or classes of transactions contained in the financial statements. Consequently I was unable to determine whether any further adjustments relating to employee cost was necessary.

Expenditure

17. I was unable to obtain sufficient appropriate audit evidence for repairs and maintenance with a credit amount of R8 579 062 as disclosed on the statement of financial performance. I was unable to confirm the balance by alternative means. Consequently I was unable to determine whether any adjustments relating to repairs and maintenance or the deficit for the period as disclosed in the statement of financial performance was necessary.
18. I was unable to obtain sufficient appropriate audit evidence for expenditure of R20 392 562 (2011: R120 864 049) included in total expenditure of R274 003 250 (2011: R291 572 252) as disclosed in the statement of financial performance. I was unable to obtain sufficient appropriate audit evidence for journal entries of R1 361 508 (2011: R24 090 551) processed during the year. Alternative procedures indicated duplicate payments of R1 137 543 (2011: R6 534 443) resulting in expenditure being overstated by this amount. Furthermore, payments of R16 010 281 were not recorded in the financial statements, thus understating expenditure and trade and other payables. Consequently I was unable to determine whether any further adjustments relating to expenditure or the deficit for the period as disclosed in the statement of financial performance were necessary.

Investment property

19. The municipality did not disclose its investment properties in the financial statements as required by SA Standard of GRAP, GRAP 16, *Investment properties*. The municipality do not have a register for investment properties, and I was therefore unable to reliably estimate or confirm by alternative means the amount that should have been disclosed. Consequently I was unable to determine whether any further adjustments relating to the investment property were necessary.

VAT payable

20. I was unable to obtain sufficient appropriate audit evidence for the VAT payable of R9 290 294 (2011: R9 669 364) as disclosed in note 16 to the financial statements. I was unable to confirm the amounts by alternative means. Consequently I was unable to determine whether any further adjustments relating to VAT payable were necessary.

Other financial assets

21. SA Standards of GRAP, GRAP 1, *Presentation of financial statements* defines current assets as assets that are expected to be released within twelve months after the reporting date. The municipality incorrectly classified consumer deposits of R4 508 840 (2011: R4 508 840) as other financial assets, and consumer debtors of R1 558 217 (2011: R1 558 217) were included in other financial assets. Consequently other financial assets were overstated, consumer debtors understated and consumer deposits understated respectively. Additionally, I was unable to obtain sufficient appropriate audit evidence for an investment of R3 777 348 (2011: R3 777 348) included in other financial assets of R9 844 405 (2011: R9 844 405) as disclosed in the statement of financial position. I was unable to confirm this investment by alternative means. Consequently I was unable to determine whether any further adjustments relating to other financial assets were necessary.



Provisions

22. Similarly to the prior year financial statements, 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 by alternative means the values not accounted for in the current and the prior periods. Consequently, property, plant and equipment, provision for rehabilitation cost, finance cost and depreciation are understated, and I was unable to determine whether any further adjustments relating to the landfill site and the provision for its rehabilitation was necessary.

Unspent conditional grants

23. I was unable to obtain sufficient appropriate audit evidence for the opening balance of unspent conditional grants and receipts of R4 736 888 (2011: R2 690 187), additions during the year of R27 843 000 (2011: R22 863 000) and income recognition during the year of R22 506 214 (2011: R30 290 075) disclosed in note 14 to the financial statements. I was unable to confirm the amounts by alternative means. Consequently I was unable to determine whether any adjustments relating to unspent conditional grants of R599 898 (2011: R4 736 888) were necessary.

Cash and cash equivalents

24. I was unable to obtain sufficient appropriate audit evidence for the cash and cash equivalents of R8 359 045 (2011: R17 266 638) as disclosed in note 12 to the financial statements. I was unable to confirm the amounts by alternative means or obtain sufficient appropriate audit evidence for journal entries of R68 073 026 (2011: R4 060 862). Consequently I was unable to determine whether any further adjustments relating to cash and cash equivalents were necessary.

Contingencies

25. I was unable to obtain sufficient appropriate audit evidence for contingencies of R6 206 928 as disclosed in note 32. The municipality did not have adequate systems in place to maintain records of its legal correspondence. Furthermore, alternative procedures identified legal proceedings of R8 781 968 that were instituted against the municipality. The municipality did not consider the extent of possible disclosure of these claims which are required to be disclosed in the notes to the financial statements. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for contingencies.

Commitments

26. I was unable to obtain sufficient appropriate audit evidence for commitments already contracted for but not finalised of R6 805 519 (2011: R38 963 890) included in R64 456 970 (2011: R38 963 890) and not yet contracted for and authorised by accounting officer of R47 454 865 disclosed in note 31 to the financial statements. I was unable to confirm the amounts by alternative means. Consequently I was unable to determine whether any adjustments relating to commitments were necessary.

Unauthorised, irregular, fruitless and wasteful expenditure

27. Section 125(2)(d)(ii) of the MFMA requires that the municipality include particulars of unauthorised expenditure in the notes to the financial statements. Unauthorised expenditure of R30 279 784 (2011: R23 652 458) incurred in the current and prior year was not disclosed. An amount of R423 169 was incorrectly disclosed as unauthorised expenditure and not as irregular expenditure. Consequently unauthorised expenditure is understated by R29 856 615 (2011: R23 652 458).
28. Section 125(2)(d)(ii) of the MFMA requires that the municipality include particulars of irregular expenditure in the notes to the financial statements. Irregular expenditure of R2 476 413 (2011: R4 582 470), as a result of payments made to contractors that exceeded the contract value, were not disclosed. Additionally, I was unable to obtain sufficient appropriate evidence that awards of R16 526 413 (2011: R52 223 893) 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.

Cash flow statement

29. I was unable to obtain sufficient appropriate audit evidence for the amounts included in the cash flow statement taking into account the misstatements identified in the financial statements and set out in this report. I was unable to practicably quantify the misstatements in the cash flow statement and notes thereto or verify the amounts by alternative means. Consequently, I was unable to determine whether any adjustments relating to the cash flow statement and notes thereto were necessary.

Disclaimer of opinion

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

Additional matter

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

Unaudited supplementary schedules

32. 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

33. 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

34. I am unable to report findings on the usefulness and reliability of the annual performance report of Ditsobotla Local Municipality as it was not prepared as required by section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2008) (MSA) and section 121(3)(c) of the MFMA.



Compliance with laws and regulations

35. 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

36. The municipality did not give effect to its integrated development plan and conduct its affairs in a manner which was consistent with its integrated development plan, as required by section 36 of the MSA and Municipal planning and performance management regulation 6.
37. The municipality did not establish a performance management system as required by section 38(a) of the MSA and Municipal Planning and Performance Management Regulations 7(2)(c)(e)(f) and (g).
38. Contrary to the requirements of section 40 of the MSA, the municipality did not establish mechanisms to monitor and review its performance management system. Contrary to the requirements of section 41 of the MSA 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

39. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, contrary to section 15 of the MFMA.
40. Quarterly reports were not submitted to the council on the implementation of the budget and financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.
41. The municipality incurred expenditure in excess of the limits of the amounts provided for in the votes in the approved budget, contrary to section 15 of the MFMA.
42. 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.

Annual financial statements, performance and annual report

43. 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.
44. 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.
45. A 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 MFMA.
46. The annual performance report for the financial year under review was not prepared as required by section 46 of the MSA and section 121(3)(c) of the MFMA.



Audit committee

47. Contrary to the requirements of section 166(1) of the MFMA, an audit committee was not in place.

Internal audit

48. Contrary to the requirements of section 165(1) of the MFMA, an internal audit unit was not established.

Procurement and contract management

49. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R500 000 were procured by means of inviting competitive bids or that deviations approved by the accounting officer were only if it was impractical to invite competitive bids, as required by SCM regulation 19(a) and 36(1).
50. 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).
51. Sufficient appropriate audit evidence could not be obtained that bids were evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality as required by SCM regulation 28(2).
52. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding and quotations, as required by SCM Regulations 21(b) and 28(1)(a) and Preferential Procurement Regulations.
53. Sufficient appropriate audit evidence could not be obtained that bid adjudication was always done by committees which were composed in accordance with SCM regulation 29(2).
54. Sufficient appropriate audit evidence could not be obtained to assess whether councillors of the municipality participated in committees evaluating or approving tenders or quotations or whether councillors attended meetings of committees evaluating or approving tenders or quotations, in contravention of section 117 of the MFMA.
55. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).
56. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
57. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders that scored the highest points in the evaluation process, as required by of section 2(1)(f) of Preferential Procurement Policy Framework Act.
58. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA, and 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.
59. 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.

60. 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).
61. Awards were made to providers who are persons in service of other state institutions or whose directors or 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).
62. 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).
63. The municipality did not implement an SCM policy as required by section 111 of the MFMA.
64. 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

65. 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 regulation 13.
66. 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).
67. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies as required by the Regulations on Minimum Competency Levels regulation 14(2)(b).
68. The municipal manager and senior managers directly accountable to the municipal manager did not sign any performance agreements, as required by section 57(2)(a) MSA.
69. 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 in 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

70. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
71. 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 expenditure when it was incurred and accounted for creditors of the municipality as required by section 65(2)(b) of the MFMA.
72. 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.
73. 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

74. Contrary to section 12(1) of the DoRA the municipality did not comply with the requirements of the grant framework.
75. Contrary to section 12(2)(b) of the DoRA the municipality was unable to supply sufficient appropriate audit evidence that monthly budget statements included:
 - the amount received by the municipality.
 - the amount of funds stopped or withheld from the municipality.
 - the extent of compliance with the DoRA and with the conditions of the allocation.
 - an explanation of material problems experienced by the municipality and a summary of the steps taken to deal with such problems.
76. The municipality did not submit quarterly performance reports to the transferring national officer, the (relevant provincial treasury) and the National Treasury, within 30 days after the end of each quarter, as required by section 12(2)(c) of the DoRA.
77. The municipality did not evaluate its performance in respect of programmes funded by the allocation and submit the evaluation to the transferring national officer within two months after the end of the financial year, as required by section 12(6) of the DoRA.
78. The municipality did not timeously submit 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.
79. The municipality did not submit project implementation plans to the national department (CoGTA), as required by the Division of Revenue Grant Framework, Gazette No.34280.
80. 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.
81. 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.
82. The municipality did not submit its signed activity plan in the prescribed format to the national department (CoGTA), as required by the Division of Revenue Grant Framework, Gazette No.34280.
83. 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

84. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.
85. Accounts for municipal tax and charges for municipal services were not prepared on a monthly basis, as required by section 64(2)(c) of the MFMA.
86. Interest was not charged on all accounts in arrears as, required by section 64(2)(g) of the MFMA.
87. 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.
88. Revenue received was not always reconciled on a weekly basis, as required by section 64(2)(h) of the MFMA.
89. A tariff policy on the levying of fees for municipal services provided by the municipality was not adopted, as required by section 74(1) of the MSA and section 62(1)(f)(i) of the MFMA.



Asset management

90. 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.
91. 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.
92. The accounting officer, within 10 working days of the end of each month, did not submit to the mayor a report describing, in accordance with generally recognised accounting practice, the investment portfolio at the end of the month, this is in contravention with Municipal Investment Regulation 9(1)

Liability management

93. 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.

Waste management

94. 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).
95. 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

96. 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

97. 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

98. 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

99. 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

28 March 2013



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence