

**Report of the Auditor-General on the  
financial statements and other legal and  
regulatory requirements of Maluti-A-  
Phofung Local Municipality for the year  
ended 30 June 2013**

# REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND THE COUNCIL ON THE MALUTI-A-PHOFUNG LOCAL MUNICIPALITY

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I was engaged to audit the financial statements of the Maluti-a-Phofung Local Municipality set out on pages ~~xx~~ to ~~xx~~, which comprise the statement of financial position as at 30 June 2013, the statements of financial performance, changes in net assets, cash flows statement, statement of comparison of budget and actual amounts, and appropriation statements for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with 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, 2012 (Act No. 5 of 2012) (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

#### Property, plant and equipment

4. I was unable to obtain sufficient appropriate audit evidence regarding property, plant and equipment for the current and prior year due to the status of the accounting records. It could also not be confirmed if the management expert valuation methodology was appropriately and consistently applied. I was unable to confirm the balance by alternative means. In addition, the municipality did not review the useful lives of assets and residual values in accordance with Standard of Generally Recognised Accounting Practice, GRAP 17, *Property, plant and equipment*. I was not able to confirm the net carrying amount of property, plant and equipment and the impact on depreciation and amortisation as it was impracticable to do so. Consequently, I was unable to determine whether any adjustment to property, plant and equipment stated at R4 358 092 402 (2012: R4 375 899 470) in the financial statements was necessary.

#### **Payables from exchange transactions**

5. I was unable to obtain sufficient appropriate audit evidence regarding payables from exchange transactions for the current and prior period due to the status of the accounting records and inadequate systems implemented by the municipality. Material differences identified between the accounting records and third party confirmations could also not be confirmed. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustment to payables from exchange transactions stated at R214 581 376 (2012: R 200 720 110) in the financial statements was necessary.

#### **Consumer receivables**

6. I was unable to obtain sufficient appropriate audit evidence regarding consumer receivables for the current and prior year due to the status of the accounting records. Adequate supporting documents could also not be provided regarding transactions recorded in the general ledger and approval of indigent debtors. Consequently, I was unable to determine whether any adjustment relating to consumer receivables stated at R119 256 947 (2012: R85 206 593) in the financial statements was necessary.

#### **Provisions for closure**

7. The municipality did not calculate the value of the present obligation of the provision for the environmental rehabilitation in accordance with SA Standard of GRAP, GRAP 19 *Provisions, contingent liabilities and contingent assets*. The obligation was calculated on the total expected disturbed area and not the actual disturbed area as at year-end. I was not able to determine the correct value of the provision for closure for both the current and prior year stated at R 37 268 911 (2012: R 35 028 011) in the financial statements as it was impracticable to do so.

#### **Receivables from exchange transactions**

8. I was unable to obtain sufficient appropriate audit evidence regarding receivables from exchange transactions for the current and prior year due to inadequate systems implemented by the municipality. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustment to receivables from exchange transactions stated at R26 836 148 (2012: R18 716 855) in the financial statements was necessary.

#### **Investment property**

9. I was unable to obtain sufficient appropriate audit evidence regarding investment property for the current and prior year due to the status of the accounting records. It could also not be confirmed if the management expert's valuation methodology was appropriately and consistently applied. I was unable to confirm the balance by alternative means. In addition, the municipality did not review the useful lives of assets and residual values in accordance with Standard of Generally Recognised Accounting Practice, GRAP 16, *Investment property*. I was not able to confirm the net carrying amount of investment property and the impact on depreciation and amortisation as it was impracticable to do so. Consequently, I was unable to determine whether any adjustment to investment property stated at R25 102 766 (2012: R26 402 452) in the financial statements was necessary.

### **Consumer deposits**

10. I was unable to obtain sufficient appropriate audit evidence regarding consumer deposits for the current and prior year due to the status of the accounting records and the municipality not providing me with evidence regarding repayments of consumer deposits. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustment to consumer deposits stated at R24 614 851 (2012: R24 654 943) in the financial statements was necessary.

### **Long-term receivable**

11. I was unable to obtain sufficient appropriate audit evidence regarding long-term receivables for the current and prior year due to inadequate systems implemented by the municipality. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustment to long-term receivables stated at R18 788 483 (2012: R20 184 891) in the financial statements was necessary.

### **Long service liability**

12. I was unable to obtain sufficient appropriate audit evidence regarding long service liability for the current and prior year due to the municipality not submitting the relevant information and employee contracts for audit purposes. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustment to long service liability stated at R16 797 000 (2012: R11 750 000) in the financial statements was necessary.

### **Retirement benefit obligation**

13. I was unable to obtain sufficient appropriate audit evidence regarding retirement benefit obligation for the current and prior year due to the municipality not submitting the relevant information and employee contracts for audit purposes. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments to the retirement benefit obligation stated at R11 181 000 (2012: R9 344 000) in the financial statements were necessary.

### **Unspent conditional grants and receipts**

14. I was unable to obtain sufficient appropriate audit evidence regarding unspent conditional grants and receipts for the current and prior year due to the status of the accounting records and the municipality not providing evidence regarding relevant transactions recorded in the general ledger. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments to unspent conditional grants and receipts stated at R8 853 932 (2012: R10 280 425) in the financial statements were necessary.

### **Service charges**

15. I was unable to obtain sufficient appropriate audit evidence regarding service charges for the current and prior year due to inadequate systems implemented by the municipality and adequate supporting documents not provided for meter readings and reconnections. I was unable to confirm service charges by alternative means. Consequently, I was unable to determine whether any adjustment relating to service charges stated at R318 976 926 (2012: R331 038 724) in the financial statements was necessary.

### **Depreciation and amortisation**

16. I was unable to obtain sufficient appropriate audit evidence regarding depreciation and amortisation for the current and prior year due to the limitations placed on my audit of property, plant and equipment and investment property. I was unable to confirm depreciation and amortisation by alternative means. Consequently, I was unable to determine whether any adjustment relating to depreciation and amortisation stated at R295 600 062 (2012: R458 714 888) in the financial statements was necessary.

### **Employee related cost**

17. I was unable to obtain sufficient appropriate audit evidence regarding employee-related cost for the current and prior year due to the status of the accounting records and adequate supporting documents could not be provided regarding termination of employees, transactions recorded in the general ledger, approval of allowances and salary scales. I was unable to confirm employee-related cost by alternative means. Consequently, I was unable to determine whether any adjustment relating to employee-related cost stated at R198 611 117 (2012: R193 973 458) in the financial statements was necessary.

### **Property rates**

18. I was unable to obtain sufficient appropriate audit evidence regarding property rates for the current and prior year due to inadequate systems implemented by the municipality. Adequate supporting documents could not be provided regarding transactions recorded in the general ledger and title deeds. I was unable to confirm property rates by alternative means. Consequently, I was unable to determine whether any adjustment relating to property rates stated at R147 150 223 (2012: R172 500 680) in the financial statements was necessary.

### **General expenses**

19. I was unable to obtain sufficient appropriate audit evidence regarding general expenses for the current and prior year due the municipality not providing evidence regarding transactions recorded in the general ledger. I was unable to confirm general expenses by alternative means. Consequently, I was unable to determine whether any adjustment relating to general expenses stated at R109 486 621 (2012: R790 721 274) in the financial statements was necessary.

#### **Contracted services**

20. I was unable to obtain sufficient appropriate audit evidence regarding contracted services for the current and prior year due to the municipality not providing evidence regarding transactions recorded in the general ledger. I was unable to confirm contracted services by alternative means. Consequently, I was unable to determine whether any adjustment relating to contracted services stated at R84 030 643 (2012: R42 261 439) in the financial statements was necessary.

#### **Repairs and maintenance**

21. I was unable to obtain sufficient appropriate audit evidence regarding repairs and maintenance for the current and prior year due to the municipality not providing me with evidence regarding transactions recorded in the general ledger. I was unable to confirm repairs and maintenance by alternative means. Consequently, I was unable to determine whether any adjustment relating to repairs and maintenance stated at R79 800 240 (2012: R42 907,608) in the financial statements was necessary.

#### **Debt impairment**

22. I was unable to obtain sufficient appropriate audit evidence regarding debt impairment for the current and prior year due to the status of the accounting records and limitations placed on my audit of receivables from exchange transactions and long-term receivables. I was unable to confirm debt impairment by alternative means. Consequently, I was unable to determine whether any adjustments relating to debt impairment stated at R56 209 276 (2012: R96 509 285) in the financial statements were necessary.

#### **Community project expenditure**

23. I was unable to obtain sufficient appropriate audit evidence regarding community-project expenditure for the current and prior year due to the municipality not providing evidence regarding transactions recorded in the general ledger. I was unable to confirm community-project expenditure by alternative means. Consequently, I was unable to determine whether any adjustment relating to community project expenditure stated at R43 391 679 (2012: R104 654 377) in the financial statements was necessary.

#### **Fair value adjustment**

24. I was unable to obtain sufficient appropriate audit evidence regarding fair value adjustment for the current and prior year due to the status of the accounting records and limitations placed on my audit of property, plant and equipment. I was unable to confirm the fair value adjustment by alternative means. Consequently, I was unable to determine whether any adjustment relating to fair value adjustment stated at R86 404 (2012: R624 740 655) as in the financial statements was necessary.

#### **Accumulated surplus**

25. I was unable to obtain sufficient appropriate audit evidence regarding the accumulated surplus and statement of changes in net assets for the current and prior year, as I could not obtain supporting evidence for the prior year corrections, as well as the limitation on other balances in the statement of financial position. I was unable to confirm the accumulated surplus and the statement of changes in net assets by alternative means. Consequently, I was unable to determine whether any further adjustment to the accumulated surplus stated at R4 187 094 418 (2012: R4 315 129 357) in the financial statements was necessary.

### **Cash flow statement**

26. I was unable to obtain sufficient appropriate audit evidence that the cash flow statement and the related notes for the current and prior financial years were fairly stated due to the material effect of scope limitations set out in this report. I was unable to confirm the cash flow by alternative means. Consequently, I was unable to determine whether any adjustments to the amounts disclosed in the cash flow statement and related notes were necessary.

### **Statement of comparison between budget and actual accounts**

27. I was unable to obtain sufficient appropriate audit evidence that the statement of comparison between actual and budget amounts and the related appropriation statement for the current and prior financial years were fairly stated due to the material effect of scope limitations set out in this report, inconsistencies between the amounts disclosed and the undisclosed supplementary explanations of budget variances. I was unable to confirm the statement of comparison between actual and budget amounts and the related appropriation statement by alternative means. Consequently, I was unable to determine whether any adjustment to the amounts disclosed in the statement of comparison between actual and budget amounts and the related appropriation statement was necessary.

### **Contingent liabilities**

28. I was unable to obtain sufficient and appropriate audit evidence regarding contingent liabilities due to an inadequate record management system. I was unable to determine the contingent liabilities by alternative means. Consequently, I was unable to determine whether any adjustments relating to contingent liabilities stated at R20 496 350 (2012: R24 829 037) in the financial statements were necessary.

### **Irregular expenditure**

29. The municipality did not disclose all irregular expenditure for the current and prior year in the notes to the financial statements as required by section 125(2)(d)(i) of the MFMA. Instances of non-compliance with supply chain management regulations were identified, resulting in irregular expenditure being understated by R165 407 728. In addition, I was unable to obtain sufficient appropriate audit evidence that all instances of irregular expenditure had been disclosed, as the municipality did not provide evidence regarding overpayment to councillors and termination of employees. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any further adjustment relating to irregular expenditure stated at R3 310 194 (2012: R0) in the financial statements was necessary.

### **Unauthorised expenditure**

30. During 2011-12 the municipality did not disclose all unauthorised expenditure in the notes to the financial statements as required by section 125(2)(d)(i) of the MFMA as the municipality did not manage expenditure against the budgeted amounts. Consequently, unauthorised expenditure was understated by R29 605 589 in the prior year. My audit opinion on the financial statements for the period ended 30 June 2012 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effects of this matter on the comparability of the current period's figure.

### **Fruitless and wasteful expenditure**

31. The municipality did not disclose all fruitless and wasteful expenditure in the notes to the financial statements as required by section 125(2)(d)(i) of the MFMA. The municipality incurred expenditure that could have been avoided had reasonable care been taken, resulting in fruitless and wasteful expenditure being understated by R1 440 683. In addition, I was unable to obtain the sufficient and appropriate audit evidence to confirm the fruitless and wasteful expenditure for the current and prior year due to an inadequate record management system. I was unable to confirm the balance disclosed by alternative means. Consequently, I was unable to determine whether any further adjustment relating to fruitless and wasteful expenditure stated at R 12 477 063 (2012: R 3 892 225) the financial statements was necessary.

### **Prior period errors**

32. I was unable to obtain sufficient appropriate audit evidence to confirm the restatement of corresponding figures for 30 June 2012. I was unable to confirm the prior period errors by alternative means. Consequently, I was unable to determine whether any further adjustments to prior period errors in note 49 to the financial statements were necessary.

### **Financial sustainability**

33. The difficulties experienced by the municipality to recover its consumer debtors, the potential negative effect of this tendency on the cash flows of the municipality and the inability to settle accounts payable within an acceptable period indicate that there is a risk that the municipality may be exposed to serious financial difficulties in terms of section 138 of the MFMA. The municipality did not disclose sufficient details of the uncertainty as per note 52 to the financial statements which have been prepared on the going concern basis. The municipality's accounting records did not provide sufficient appropriate audit evidence that the municipality is able to continue as a going concern.

### **Disclaimer of opinion**

34. 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 matters**

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

### **Material losses and impairments**

36. As disclosed in notes 34 and 55 to the financial statements, material losses to the amount of R56 209 276 and R170 141 758, respectively, were incurred as a result of a write-off of and provision for irrecoverable trade debtors and distribution losses on electricity.

### **Underspending of the budget**

37. As disclosed in the statement of comparison of budget and actual amounts, the municipality has materially underspent the budget on personnel cost, debt impairment, repairs and maintenance, materials and bulk purchases and other expenditure to the amount of R28 753 555, R10 384 808, R31 054 751 and R473 087 263, respectively. As a consequence, the municipality has not achieved its objectives.

### **Additional matter**

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



## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

39. 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

40. 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.
41. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development 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's *Framework for managing programme performance information* (FMPPI).
42. The reliability of the information in respect of the selected development objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
43. The material findings are as follows:

NT OR

### Usefulness of information

44. The Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA), section 41(c) requires that the actual achievements against all planned indicators and targets must be reported annually. The annual performance report submitted for audit purposes did not include the actual performance of 52% of all planned indicators and targets specified in the service delivery and budget implementation plan for the year under review. This was due to a lack of monitoring and reviewing of the completeness of the reporting documents by management.
45. The FMPP requires that performance targets be measurable. The required performance could not be measured for a total of 58% of the planned targets. This was due to a lack of supporting source documentation relating to performance targets.
46. The FMPP requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 58% of the targets were not specific in clearly identifying the nature and the required level of performance. This was due to a lack of monitoring and reviewing of the planning documents by management.
47. The FMPP requires that it must be possible to validate the processes and systems that produce the indicator. A total of 98% of the indicators 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 availability of directors of departments to explain the controls specific to their department.
48. Section 46 of the MSA requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Measures to improve performance for a total of 99% of the planned targets not achieved were not reflected in the annual performance report. This was due to the lack of monitoring and review by management to ensure that performance targets not achieved are identified and disclosed.

### Reliability of information

49. The FMPP requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented. This was due to a lack of a document management system with regard to actual performance achievements.

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

50. 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:

### **Financial statements, performance and annual report**

51. 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 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.
52. The 2011-12 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.
53. A written explanation was not submitted to council setting out the reasons for the delay in the tabling of the 2011/12 annual report in the council, as required by section 127(3) and 133(1)(a) of the MFMA.
54. An oversight report, containing comments on the annual report, was not adopted by the council within two months from the date on which the 2011-12 annual report was tabled, as required by section 129(1) of the MFMA.
55. The council's oversight report on the 2011-12 annual report was not made public within seven days of its adoption, as required by section 129(3) of the MFMA.

### **Strategic planning and performance management**

56. The MSA section 41(c) requires that the service delivery and budget implementation plan should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 61% of the reported indicators and targets are not as per the service delivery and budget implementation plan. This was due to a lack of review of the completeness of reporting documents by management, audit committee and internal audit.
57. The municipality did not set key performance indicators, including input indicators, output indicators and outcome indicators, in respect of each of the development priorities and objectives set out in the integrated development plan (IDP), as required by section 41(1)(a) of the MSA and the municipal planning and performance management (MPPM) regulations 1 and 9(1)(a).
58. The parent municipality with effective control in the case of a municipal entity which is a private company, 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 MSA.
59. The municipality did not set measurable performance targets for the financial year with regard to each of the development priorities and objectives and key performance indicators set out in the IDP, as required by section 41(1)(b) of the MSA and the MPPM regulation 12(1) and 12(2)(e).

60. The accounting officer of the municipality did not assess by 25 January the performance of the municipality during the first half of the financial year, as required by section 72(1)(a)(ii) of the MFMA .

OFFICIAL INFORMATION

61. The municipality did not have and maintain effective, efficient and transparent systems of financial and risk management and internal controls as required by section 62(1)(c)(i) of the MFMA.
62. The annual performance report for the year under review does not include the performance of the municipality and each external service provider, a comparison of the performance with set targets and measures taken to improve performance, as required by section 46 (1)[(a), (b), (c) of the Municipal Systems Act.

### **Budgets**

63. 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.

### **Audit committee**

64. The audit committee did not advise the council and the accounting officer on matters relating to accounting policies and performance management as required by section 166(2)(a) of the MFMA.
65. The audit committee did not advise the council and the accounting officer on matters relating to compliance with legislation, as required by section 166(2)(a)(vii) of the MFMA.
66. 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 legislation, as required by section 166(2)(b) of the MFMA.
67. The audit committee did not respond to the council on the issues raised in the audit reports of the auditor-general, as required by section 166(2)(c) of the MFMA.
68. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.
69. The performance audit committee did not meet at least twice during the financial year, as required by MPPM regulation 14(3)(a).
70. The performance audit committee did not review the municipality's performance management system and make recommendations to the council, as required by MPPM regulation 14(4)(a)(ii).
71. The performance audit committee did not review the quarterly internal audit reports on performance measurement, as required by MPPM regulation 14(4)(a)(i).
72. The performance audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by MPPM regulation 14(4)(a)(iii).

## **Internal audit**

73. The internal audit unit did not function as required by section 165(2) of the MFMA, in that:

- 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.

74. The internal audit unit did not report to the audit committee on matters relating to compliance with the MFMA, the DoRA and other applicable legislation, as required by section 165(2)(b)(vii) of the MFMA.

75. The internal audit did not audit the results of performance measurements, as required by section 45(1)(a) of the MSA and MPPMR 14(1)(a).

## **Expenditure management**

76. Reasonable steps were not taken to prevent irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

77. Money owing by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.

## **Revenue management**

78. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

79. 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.

80. An adequate management, accounting and information system which accounts for revenue, debtors and receipts of revenue was not in place, as required by section 64(2)(e) of the MFMA.

## **Asset management**

81. 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.

82. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

### **Conditional grants**

83. 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 21(1) of the DoRA.

### ***Municipal infrastructure grant***

84. The municipality did not evaluate its performance in respect of programmes funded by the municipal infrastructure grant (MIG) and submit the evaluation to the transferring national officer within two months after the end of the financial year, as required by section 12(5) of the DoRA.
85. The municipality did not timeously submit project registration forms, for projects it intends implementing in the financial year 2013/14, to the department of local government, as required by the Division of Revenue Grant Framework, Gazette No.35399.
86. The municipality did not submit project implementation plans to the national department (CoGTA), as required by the Division of Revenue Grant Framework, Gazette No.35399.

### ***Integrated national electrification programme grant***

87. The municipality did not evaluate its performance in respect of programmes funded by the integrated national electrification programme grant (INEPG) and submit the evaluation to the transferring national officer within two months after the end of the financial year, as required by section 12(5) of the DoRA.
88. The municipality did not register its master plans for bulk infrastructure with the (INEPG), as required by the Division of Revenue Grant Framework, Gazette No.35399.
89. Projects funded by the (INEPG) were not implemented in line with the details contained in the IDP, as required by the Division of Revenue Grant Framework, Gazette No.35399.

### ***Local government financial management grant***

90. The municipality did not evaluate its performance in respect of programmes funded by the local government financial management grant (LGFMG) and submit the evaluation to the transferring national officer within two months after the end of the financial year, as required by section 12(5) of the DoRA.
91. The municipality did not submit MFMA implementation plans to the National Treasury to address weaknesses in financial management, as required by the Division of Revenue Grant Framework, Gazette No.35399.

### ***Municipal systems improvement grant***

92. The municipality did not evaluate its performance in respect of programmes funded by the municipal systems improvement grant (MSIG) and submit the evaluation to the transferring national officer within two months after the end of the financial year, as required by section 12(5) of the DoRA.
93. The municipality did not submit its signed activity plan and in the prescribed format to

the national department (CoGTA), as required by the Division of Revenue Grant Framework, Gazette No.35399.

94. The municipality did not submit, within 10 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.35399.

#### **Procurement and contract management**

95. 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 the required information could not be provided for audit purposes.

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

96. Sufficient appropriate audit evidence could not be obtained that appointments were only made in posts which were provided for in the approved staff establishment of the municipality, as required by section 66(3) of MSA.
97. Sufficient appropriate audit evidence could not be obtained that job descriptions were established for all posts in which appointments were made in the current year, as required by section 66(1)(b) of MSA.
98. Sufficient appropriate audit evidence could not be obtained that appointments were made in the posts of municipal manager and manager directly accountable to municipal manager that were advertised, as required by section 54A(4)(a) and 56(3) of MSA.
99. The accounting officer, chief financial officer, head of the SCM unit and other senior managers accountable to the municipal manager were appointed without having met the prescribed minimum competency levels as required by section 54A(2) and 56(1)(b) of the MSA.
100. Sufficient appropriate audit evidence could not be obtained that the appointment of the municipal manager was approved by the municipal council as required by section 54A(1)(a) of the MSA.
101. Sufficient appropriate audit evidence could not be obtained that the appointment of senior managers directly accountable to the municipal manager were approved by municipal council as required by section 56(1)(a) of the MSA.
102. The employment contract of the municipal manager exceeded a period of five years in contravention of section 57(6) of the MSA.
103. Sufficient appropriate audit evidence could not be obtained that newly appointed municipal managers and managers directly accountable to municipal managers submitted original and/or certified copies of academic and professional qualifications, proof of previous employment and disclosure of financial interests prior to appointment as per the requirements of Municipal Performance regulation 4 of GNR 805.
104. Sufficient appropriate audit evidence could not be obtained that senior managers dismissed for financial misconduct in a previous position were not re-appointed before expiry of 10 years in contravention of section 57A of the MFMA.
105. Sufficient appropriate audit evidence could not be obtained that the accounting



officer met any of the higher education qualifications or the prescribed competency areas as required by section 83 of the MFMA and regulations 2 and 3 of Municipal Regulations on Minimum Competency Levels.

106. Sufficient appropriate audit evidence could not be obtained that the head of supply chain management met any of the higher education qualifications or the prescribed competency areas as required by sec 119 of the MFMA and regulations 10 and 11 of Municipal Regulations on Minimum Competency Levels.
107. Sufficient appropriate audit evidence could not be obtained that the senior managers met any of the higher education qualifications or the prescribed competency areas as required by regulation 6 and 7 of Municipal Regulations on Minimum Competency Levels.
108. Sufficient appropriate audit evidence could not be obtained that the finance officials at middle management or supply chain management managers met any of the higher education qualifications or the prescribed competency areas as required by regulations 8 and 9 of Municipal Regulations on Minimum Competency Levels.
109. An approved staff establishment was not in place, as required by section 66(1)(a) of the MSA.

#### **Consequence management**

110. Irregular expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.
111. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine whether any person was liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.
112. Irregular, fruitless and wasteful expenditure was not always recovered from the liable person, as required by section 32(2) of the MFMA.
113. The accounting officer and council did not always report to the South African Police Service cases of alleged irregular expenditure that constituted a criminal offence, as required by section 32(6) and (7) of the MFMA.

#### **Internal control**

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

### **Leadership**

115. Effective leadership, based on a culture of honesty, ethical business practices, good governance and protecting and enhancing the interest of the municipality, was not provided. This resulted in various audit findings as included in this report.
116. Proper oversight was not exercised during the year on the implementation of an effective internal control system, establishing policies and procedures for effective record management, maintaining an asset register and preparing the annual financial statements, due to a lack of consequences for poor performance and transgressions. This is evidenced through various findings in this report.
117. The leadership did not take timeous and adequate action to address weaknesses in the finance and supply chain management directorate and performance information, which resulted in non-compliance with applicable legislation and gave rise to fruitless and wasteful and irregular expenditure.
118. The lack of decisive action to mitigate emerging risks, implement timely corrective measures and address non-performance was evident by the failure of management to adequately address the external audit findings in a timely manner. The municipality failed to properly analyse the control weaknesses and implement appropriate follow-up actions that adequately addressed the root cause. This resulted in the audit findings in the prior year report being recurring in the current year.

### **Financial and performance management**

119. Effective financial and performance systems, processes and procedures as well as the management thereof had not been adequately developed and implemented, due to a lack of appropriate competencies.
120. Management of the municipality has not performed a regular review and monitoring of compliance to laws and regulation due to a lack of appropriate competencies, which resulted in material non-compliance.
121. The municipality did not have the human resource capacity throughout the financial year to adequately address prior year findings and weaknesses identified in the financial and control systems of the municipality. This necessitated the municipality to make use of consultants to supplement such constraints. Consultants assisted with the preparation of an asset register and the preparation of the financial statements.
122. The financial statements and performance report were not properly reviewed for completeness and accuracy prior to submission for auditing, due to a lack of appropriate competencies. This resulted in many findings relating to incorrect disclosure.

### **Governance**

123. The audit committee has not promoted accountability and service delivery through providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

## OTHER REPORTS

### Investigations

124. An investigation is being conducted to probe the manner in which the contract for the electricity supply network was awarded subsequent to year-end. The investigation aims to establish whether a fair, transparent and equitable procurement process was followed in awarding the contract. The investigation was still ongoing at the reporting date.

*Auditor-General*  
Bloemfontein

30 November 2013



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

NOT FOR ULSI G