

**REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL  
LEGISLATURE AND THE COUNCIL ON THE KAMIESBERG LOCAL MUNICIPALITY**  
**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I was engaged to audit the financial statements of the Kamiesberg 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 for the year then ended, the statement of comparison of budget and actual amounts, 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 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 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 due to an inadequate management, accounting and information system to account for property, plant and equipment and the filing system not functioning effectively. I was unable to confirm the balance and amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustment relating to property, plant and equipment stated at R112 462 781(2012: R102 493 685) in the financial statements was necessary. Additionally, there is a consequential impact on the impairment losses and depreciation in the statement of financial performance, deficit for the period and the accumulated deficit.

**Disclosure**

5. The municipality did not disclose the detail of the restatements made for prior year errors relating to non-current provisions, non-current employee benefits, current employee benefits as well as long-term liabilities as required by GRAP 1, *Presentation of financial statements* and GRAP 3, *Accounting policies, changes in accounting estimates and errors*. In addition, I was unable to obtain sufficient appropriate audit evidence to confirm these balances as disclosed in the financial statements. I was unable to confirm these balances disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to these amounts as disclosed for restatements made. Additionally, there is a consequential impact on the deficit for the period and the accumulated deficit.

### **Revenue from non-exchange transactions**

6. The municipality did not have adequate systems and controls in place to account for revenue from exchange transactions, which resulted in an understatement of government grants and subsidies by R1 573 039. In addition, I was unable to obtain sufficient appropriate audit evidence regarding revenue from non-exchange transactions due to an inadequate management, accounting and information system to account for revenue and the filing system not functioning effectively. I was unable to confirm these amounts disclosed by alternative means. Consequently I was unable to determine whether any adjustments relating to revenue from non-exchange transactions stated at R37 038 477(2012: R34 667 988) in the financial statements was necessary.

### **Expenditure**

7. The municipality did not have adequate systems in place to account for expenditure, which resulted in bulk purchases, general expenditure and repair and maintenance being overstated by R178 162, R 4 227 438 and R42 889 respectively. In addition, I was unable to obtain sufficient appropriate audit evidence regarding expenditure due to an inadequate management, accounting and information system to account for expenditure and the filing system not functioning effectively. I was unable to confirm these amounts disclosed by alternative means. Consequently I was unable to determine whether any adjustments relating to expenditure stated at R23 480 411 (2012: R20 360 253) in the financial statements was necessary.

### **Payables from exchange transactions**

8. The municipality did not recognise all outstanding amounts meeting the definition of a liability in accordance with GRAP 1, *Presentation of financial statements*, which resulted in trade and other payables being understated by R5 984 394. In addition, I was unable to obtain sufficient appropriate audit evidence regarding payables from exchange transactions due to an inadequate management, accounting and information system to account for payables from exchange transactions and the filing system not functioning effectively. I was unable to confirm the balance disclosed by alternative means. Consequently, I was unable to determine whether any adjustment relating to payables from exchange transactions stated at R15 476 509(2012: R7 483 325) in the financial statements was necessary.

### **Revenue from exchange transactions**

9. The municipality did not have adequate systems and controls in place to account for revenue from exchange transactions, which resulted in an understatement of service charges by R507 302. In addition, I was unable to obtain sufficient appropriate audit evidence regarding revenue from exchange transactions due to an inadequate management, accounting and information system to account for revenue and the filing system not functioning effectively. I was unable to confirm these amounts disclosed by alternative means. Consequently I was unable to determine whether any adjustments relating to revenue from exchange transactions stated at R10 871 212 (2012: R8 224 524) in the financial statements were necessary.

### **Employee related costs**

10. The municipality did not have adequate systems in place to account for employee-related costs, which resulted in an understatement of employee-related costs by R1 133 768. I was unable to obtain sufficient appropriate audit evidence regarding employee related costs due to supporting documentation that could not be obtained for payments made. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to

employee related costs stated at R13 404 958 (2012: R12 348 513) in the financial statements were necessary.

### **Capital commitments**

11. I was unable to obtain sufficient appropriate audit evidence regarding commitments due to the lack of a proper contract management system for the identification and recognition of contracts, a complete contract register or any other documents to enable me to quantify the commitments. I was unable to confirm the balance disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments relating to commitments stated at R16 283 048 (2012: R10 220 708) in the financial statements were necessary.

### **Receivables from exchange transactions**

12. The municipality did not measure receivables from exchange transactions at amortised cost in accordance with GRAP 104, *Financial instruments*, and did not recognise the provision for impairment loss in accordance with GRAP 104, as the basis for the calculation of the impairment did not comply with the stipulations of GRAP 104. The municipality did not comply with these requirements in the current and prior year. In addition, I was unable to obtain sufficient appropriate audit evidence to confirm the balance of receivables from exchange transactions. I was unable to confirm the balance disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments relating to receivables from exchange transactions stated at R2 994 499 (2012: R3 529 052) in the financial statements were necessary.

### **Receivables from non-exchange transactions**

13. The municipality did not measure receivables from non-exchange transactions at amortised cost in accordance with GRAP 104, *Financial instruments*, and did not recognise the provision for impairment loss in accordance with GRAP 104, as the basis for the calculation of the impairment did not comply with the stipulations of GRAP 104. The municipality did not comply with these requirements in the current and prior year. In addition, I was unable to obtain sufficient appropriate audit evidence to confirm the balance of receivables from non-exchange transactions. I was unable to confirm the balance disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments relating to receivables from non-exchange transactions stated at R2 120 632 (2012: R7 319 884) in the financial statements were necessary.

### **Contingent liabilities**

14. The municipality did not disclose all contingent liabilities in accordance with GRAP 19, *Provisions, contingent liabilities and contingent assets*. Employees' job evaluations were not completed and they were not paid according to the wage scales and rates in the wage curve agreement and did not receive the nine months retrospective increase. The contingent liability was however not disclosed. I was unable to confirm the balance disclosed by alternative means. Consequently, I was unable to determine whether any adjustment relating to contingent liabilities stated at R1 300 000(2012: R940 000) in the financial statements was necessary.

### **Irregular expenditure**

15. I was unable to obtain sufficient appropriate audit evidence regarding irregular expenditure due to the lack of evidence that management has properly identified, investigated and recorded all irregular expenditure transactions during the current and prior year, the limitations placed on the scope of the work performed relating to expenditure and the lack of a proper system of internal control to support and account for and identify irregular expenditure. I was unable to confirm the balance disclosed by

alternative means. Consequently, I was unable to determine whether any adjustment relating to irregular expenditure stated at R0 (2012: R2 661 945) in the financial statements was necessary.

#### **Investment property**

16. I was unable to obtain sufficient appropriate audit evidence regarding investment property due to an inadequate management, accounting and information system to account for investment property and the filing system not functioning effectively. I was unable to confirm the balance disclosed by alternative means. Consequently, I was unable to determine whether any adjustment relating to investment property stated at R502 059 (2012: R502 059) in the financial statements was necessary.

#### **Value-added tax (VAT) receivable**

17. The municipality did not have adequate systems and controls in place to account for value-added tax (VAT), which resulted in an understatement of VAT by R127 068. In addition, I was also unable to obtain sufficient appropriate audit evidence regarding VAT receivable due to an inadequate management; accounting and information system to account for VAT. I was unable to confirm the balance disclosed by alternative means. Consequently, I was unable to determine whether any adjustment relating to VAT receivable stated at R3 496 820(2012: R1 914 817) in the financial statements was necessary.

#### **Consumer deposits**

18. I was unable to obtain sufficient appropriate audit evidence regarding consumer deposits due to the lack of evidence that management has properly charged and accounted for all consumer deposits. I was unable to confirm the balance disclosed by alternative means. Consequently, I was unable to determine whether any adjustment relating to consumer deposits stated at R29 670 (2012: R21 499) in the financial statements was necessary.

#### **Intangible assets**

19. I was unable to obtain sufficient appropriate audit evidence regarding intangible assets due to an inadequate management, accounting and information system to account for intangible assets and the filing system not functioning effectively. I was unable to confirm the balance disclosed by alternative means. Consequently, I was unable to determine whether any adjustment relating to intangible assets stated at R116 469(2012: R204 925) in the financial statements was necessary.

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

20. The municipality did not have adequate systems and controls in place to account for unspent conditional grants, which resulted in an understatement of unspent conditional grants of R1 573 093. In addition, I was unable to obtain sufficient appropriate audit evidence regarding unspent conditional government grants and receipts due to the lack of accurate reconciliations between the opening balance of unspent grants and the balance unspent at the end of the financial year. In addition, documentation to establish if all transactions took place according to the conditions of each grant and whether the expenditure against the grants should have been transferred to revenue in the statement of financial performance could not be supplied. I was unable to confirm the balance disclosed by alternative means. Consequently, I was unable to determine whether any further adjustment relating to unspent conditional government grants and receipts stated at R6 540 512 (2012: R6 361 081) in the financial statements was necessary.

#### **Cash and cash equivalents**

21. I was unable to obtain sufficient appropriate audit evidence regarding cash and cash equivalents due to an inadequate management, accounting and information system to account for cash and cash equivalents and the filing system not functioning effectively. I was unable to confirm the balance disclosed by alternative means. Consequently, I was unable to determine whether any adjustment relating to cash and cash equivalents stated at R641 690 (2012: R978 293) and the overdraft stated at R3 967 366 (2012: R3 929 281) in the financial statements was necessary.

#### **Fruitless and wasteful expenditure**

22. I could not be provided with sufficient appropriate audit evidence that management has properly identified, investigated and recorded all fruitless and wasteful transactions during the prior year. Due to the limitations placed on the scope of the work performed relating to expenditure and the lack of a proper system of internal control to account for and identify fruitless and wasteful expenditure. I was unable to confirm the balance disclosed by alternative means. Consequently, I was unable to determine whether any adjustment relating to fruitless and wasteful expenditure stated at R0 (2012: R172 301) in the financial statements was necessary.

#### **Distribution losses**

23. The municipality did not calculate and disclose the value of water and electricity distribution losses in the current and prior year in accordance with section 125(2)(d)(i) of the MFMA. I was not able to determine the correct disclosure and misstatement as it was impracticable to do so.

#### **Cash flow statement**

24. I was unable to obtain sufficient appropriate audit evidence regarding the cash flow statement due to the limitations placed on my audit of various components of the financial statements. I was unable to confirm the cash flow statement by alternative means. Consequently, I was unable to determine whether any adjustments relating to the cash flow statement in the financial statements were necessary.

#### **Aggregation of immaterial uncorrected misstatements**

25. The financial statements as a whole are materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following elements making up the statement of financial position and the statement of financial performance:

- Accumulated Depreciation reflected as R103 125 535 is overstated by R133 014
- Trade and other receivables reflected as R2 994 499 is overstated by R161 283

As a result, I was unable to determine whether any adjustments to these elements were necessary.

#### **Disclaimer of opinion**

26. 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**

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

matters.

### **Material losses and impairments**

28. As disclosed in note 17 and note 18 to the financial statements, material losses to the amount of R25 536 892, were incurred as a result of the write-off of irrecoverable trade debtors.
29. The valuation roll was last updated in 2009; consequently property rates could be understated by an undeterminable material amount.

### **Material under spending of the budget**

30. As disclosed in appendix D1 Expenditure to the financial statements, the municipality has materially underspent the budget on the Municipal Infrastructure Grant to the amount of R6 381 397. As a consequence, the municipality has not achieved its objectives as set out in its Integrated Development Plan, Service Delivery and Budget Implementation Plan.

### **Restatement of corresponding figures**

31. As disclosed in note 40 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered during 2013 in the annual financial statements of the municipality at, and for the year ended, 30 June 2012.

### **Financial sustainability**

32. The difficulties being experienced by the municipality in recovering 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 financial statements disclosed the details of the uncertainty in note 58.

### **Additional matters**

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

### **Material inconsistencies in other information included in the annual report**

34. I have not obtained the other information included in the annual report. Consequently I have not been able to identify whether the other information to be included in the annual report contains any material inconsistencies to the information in the financial statements.

### **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 this/ these schedules 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'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).

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).

### **Usefulness of information**

39. The National Treasury's FMPPi requires that performance targets be measurable.

I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the measurability of information presented with respect to Basic Services and Infrastructure Development.

This was due to limitations placed on the scope of my work due the fact that the institution could not provide sufficient appropriate evidence in support of the information presented with respect to the programme and the institution's records not permitting the application of alternative audit procedures.

### **Reliability of information**

40. The National Treasury's FMPPi 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 with respect to Basic Services and Infrastructure Development.

This was due to limitations placed on the scope of my work due to the fact that the institution could not provide sufficient appropriate evidence in support of the information presented with respect to the programme and the institution's records not permitting the application of alternative audit procedures.

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

41. 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:

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

42. The municipal council did not consult with the local community in the drafting and implementation of the municipality's IDP, by means of a municipal wide structure for community participation, as required by section 28 of the Municipal Systems Act and Municipal planning and performance management regulation 15(1)(a)(i).

43. The municipality did not afford the local community at least 21 days to comment on the final draft of its Integrated Development Plan before the plan was submitted to council for adoption, as required by municipal planning and performance management regulation 15(3).
44. The municipality did not give effect to its IDP and conduct its affairs in a manner which was consistent with its IDP, as required by section 36 of the Municipal Systems Act, section 21(2)(a) of the Municipal Finance Management Act and Municipal planning and performance management regulation 6.
45. The municipality did not establish a performance management system, as required by section 38(a) of the Municipal Systems Act.
46. 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 IDP, as required by section 41(1)(a) of the Municipal Systems Act and the Municipal planning and performance management regulation 1 and 9(1)(a).
47. 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 Municipal Systems Act and the MPPM regulation 12(1) and 12(2)(e).

#### **Budget**

48. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the Municipal Finance Management Act.
49. Sufficient appropriate audit evidence could not be obtained that quarterly reports were 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.

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

50. Financial statements were not submitted for auditing within two months after the end of the financial year, as required by section 126(1) (a) of the Municipal Finance Management Act.
51. 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 Municipal Finance Management Act.
52. 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 Municipal Finance Management Act.
53. The 2011/12 annual report was not made public immediately after the annual report was tabled in the council, as required by section 127(5) (a) of the Municipal Finance Management Act.
54. Oversight report, containing comments on the annual report, was not adopted by council within two months from the date on which the 2011/12 annual report was tabled, as required by section 129(1) of the Municipal Finance Management Act.
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 Municipal Finance Management Act.

56. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.
57. 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 Municipal Finance Management Act.
58. The annual performance report for the year under review does not include a comparison with the previous financial year and measures taken to improve performance, as required by Section 46 (1) (c) of the Municipal Systems Act

#### **Audit committee**

59. The audit committee did not advise the council on matters relating to internal financial control and internal audits, risk management, accounting policies, effective governance, performance management and performance evaluation as required by section 166(2)(a) of the Municipal Finance Management Act.
60. The audit committee did not advise the council on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the Municipal Finance Management Act.
61. The audit committee did not advise the council on matters relating to compliance with legislation, as required by section 166(2) (a) (vii) of the Municipal Finance Management Act.
62. 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 Municipal Finance Management Act.
63. The audit committee did not respond to the council on the issues raised in the audit reports of the Auditor-General, as required by section 166(2) (c) of the Municipal Finance Management Act.
64. The audit committee did not meet at least four times a year, as required by section 166(4) (b) of the Municipal Finance Management Act.
65. A performance audit committee was not in place and the audit committee was not used to fulfill the performance audit committee function, as required by MPPM regulation 14(2)(a).

#### **Internal audit**

66. The internal audit unit did not function as required by section 165(2) of the Municipal Finance Management Act, in that it did not prepare a risk-based audit plan and an internal audit programme for the financial year under review; it did not report to the audit committee on the implementation of the internal audit plan; it did not advise the accounting officer and report to the audit committee on matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management and loss control.
67. The internal audit unit did not advise the accounting officer and report to the audit committee on matters relating to compliance with the Municipal Finance Management Act, the Division of Revenue Act and other applicable legislation, as required by section 165(2)(b)(vii) of the Municipal Finance Management Act.

68. The internal audit did not audit the results of performance measurements, as required by section 45(1) (a) of the Municipal Systems Act and Municipal planning and performance management regulation 14(1) (a).
69. The internal audit unit did not assess the functionality of the performance management system, as required by Municipal planning and performance management regulation 14(1) (b) (i).
70. The internal audit unit did not assess the extent to which the performance measurements were reliable in measuring the performance of the municipality on key and general performance indicators, as required by Municipal planning and performance management regulation 14(1) (b) (iii).
71. 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**

72. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by Municipal Supply Chain Management regulation 17(a) & (c).
73. Quotations were accepted from prospective providers who are not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the municipality's Municipal Supply Chain Management policy in contravention of by Municipal Supply Chain Management regulation 16(b) and 17(b).
74. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by means of inviting competitive bids and that deviations approved by the accounting officer were only if it was impractical to invite competitive bids, as required by Municipal Supply Chain Management regulation 19(a) and 36(1).
75. 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 that allowed all potential suppliers to offer their goods or services, as per required by Municipal Supply Chain Management regulation 27(2)(a).
76. Sufficient appropriate audit evidence could not be obtained that bid specifications were drafted by bid specification committees which were composed of one or more officials of the municipality as required by Municipal Supply Chain Management regulation 27(3).
77. Invitations for competitive bidding were not always advertised for a required minimum period of days, as required by Municipal Supply Chain Management regulation 22(1) & 22(2).
78. Contracts and quotations were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding and quotations, in contravention of Municipal Supply Chain Management regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.
79. The preference point system was not 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 Municipal Supply Chain Management regulation 28(1)(a).

80. Contracts and quotations were awarded to bidders based on preference points that were not calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
81. Contracts and quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1) (f) of Preferential Procurement Policy Framework Act.
82. Construction contracts were awarded to contractors that were not registered with the Construction Industry Development Board and did not qualify for the contract, in accordance with section 18(1) of the Construction Industry Development Board Act, 2000 (Act No. 38 of 2000) and Construction Industry Development Board regulations 17 and 25(7A).
83. Construction projects were not always registered with the Construction Industry Development Board as required by section 22 of the Construction Industry Development Board Act and Construction Industry Development Board regulation 18.
84. Contracts and quotations were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by Municipal Supply Chain Management regulation 43.
85. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded only to bidders who submitted a declaration on whether they are employed by the state or connected to any person employed by the state, as required by Municipal Supply Chain Management regulation 13(c).

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

86. Job descriptions were not established for all posts in which appointments were made in the current year, in contravention of section 66(1) (b) of Municipal Systems Act.
87. Sufficient appropriate audit evidence could not be obtained that newly appointed municipal manager submitted proof of previous employment and disclosure of financial interests prior to appointment as per the requirements of regulation 4 of GNR 805.
88. Sufficient appropriate audit evidence could not be obtained that the senior managers dismissed for financial misconduct in a previous position and re-appointed before the expiry of 10 years in contravention of section 57A of the Municipal Finance Management Act.
89. Sufficient appropriate audit evidence could not be obtained that the municipal manager and senior managers directly accountable to the municipal manager did sign performance agreements, as required by section 57(2) (a) Municipal Systems Act.

#### **Expenditure management**

90. 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 Municipal Finance Management Act.
91. Payments were made without the approval of the accounting officer or a properly authorised official as required by section 11(1) of the Municipal Finance Management Act.
92. An effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, was not in place, as required by section 65(2)(a) of the Municipal Finance Management Act.
93. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, accounted for creditors and accounted for payments made, as required by section 65(2)(b) of the Municipal Finance

Management Act.

94. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1) (d) of the Municipal Finance Management Act.

#### **Conditional grants received**

95. 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 Division of Revenue Act.
96. Sufficient appropriate audit evidence could not be obtained that the allocation for the Municipal Infrastructure Grant was utilised for purposes other than those stipulated in the grant framework, in contravention of section 16(1) of the Division of Revenue Act.
97. Sufficient appropriate audit evidence could not be obtained that the municipality did evaluate its performance in respect of programmes funded by the Municipal Infrastructure Grant within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act.
98. Sufficient appropriate audit evidence could not be obtained that the municipality did 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.
99. 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.
100. Sufficient appropriate audit evidence could not be obtained that the allocation for the Local Government Financial Management Grant was utilised for purposes other than those stipulated in the grant framework, in contravention of section 16(1) of the Division of Revenue Act.
101. Sufficient appropriate audit evidence could not be obtained that the municipality did evaluate its performance in respect of programmes funded by the Local Government Financial Management Grant within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act.
102. Sufficient appropriate audit evidence could not be obtained that the municipality did submit Municipal Finance Management Act implementation plans to National Treasury to address weaknesses in financial management, as required by the Division of Revenue Grant Framework, Gazette No.35399.
103. Sufficient appropriate audit evidence could not be obtained that the allocation for the Municipal Systems Improvement Grant was utilised for purposes other than those stipulated in the grant framework, in contravention of section 16(1) of the Division of Revenue Act.
104. Sufficient appropriate audit evidence could not be obtained that the municipality did evaluate its performance in respect of programmes funded by the Municipal Systems Improvement Grant within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act.
105. Sufficient appropriate audit evidence could not be obtained that the municipality did 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.
106. The municipality did not submitted, 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.

107. The municipality did not evaluate its performance in respect of programmes funded by the Integrated National electrification Programme (Municipal) Grant within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act.
108. The municipality did not register its master plans for bulk infrastructure with the Integrated National Electrification Programme, as required by the Division of Revenue Grant Framework, Gazette No.35399.

#### **Revenue management**

109. An adequate management, accounting and information system which accounts for revenue and receipts of revenue was not in place, as required by section 64(2) (e) of the Municipal Finance Management Act.
110. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2) (f) of the Municipal Finance Management Act.
111. Sufficient appropriate audit evidence could not be obtained that revenue due to the municipality was calculated on a monthly basis, as required by section 64(2) (b) of the Municipal Finance Management Act.
112. Interest was not charged on all accounts in arrears, as required by section 64(2) (g) of the Municipal Finance Management Act.

#### **Asset management**

113. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2) (a) of the Municipal Finance Management Act.
114. 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 Municipal Finance Management Act.
115. Capital assets were disposed without the approval of the council, as required by section 14(2) (a) of the Municipal Finance Management Act and Municipal asset transfer regulation 5.

#### **Consequences management**

116. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the Municipal Finance Management Act.
117. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the Municipal Finance Management Act.
118. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the Municipal Finance Management Act.

#### **Liability management**

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

#### **Internal control**

120. I considered internal control relevant to my audit of the financial statements, annual

performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

### **Leadership**

- 121. Political oversight was not effective. The municipality has a history of political instability and violence. Furthermore, interference into the daily duties of officials took place.
- 122. Leadership were reluctant to exercise effective oversight due to the risk of political and other interference.
- 123. There was a slow response to the message communicated by the AGSA to the administrative and political leadership. This resulted in many significant matters in the action plan not being addressed timeously.

### **Financial and performance management**

- 124. A lack of consequences for poor performance resulted in various non-compliance with laws and regulations re-occurring, as well as insufficient record-keeping.
- 125. A lack of competencies was identified, especially in the SCM unit. This resulted in regular and accurate financial and performance reports not being compiled. Furthermore, it contributed to the occurrence of irregular expenditure.

### **Governance**

- 126. The internal audit unit was not adequately capacitated and functioning, impacting negatively on the implementation and evaluation of internal controls.
- 127. The audit committee did not adequately promote accountability and service delivery by evaluating and monitoring responses to risks and providing oversight of the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations mainly due to the ineffective functioning of the internal audit unit.

Kimberley

15 February 2014



**A U D I T O R - G E N E R A L**  
**S O U T H A F R I C A**

*Auditing to build public confidence*