

REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON TSANTSABANE LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the financial statements of the Tsantsabane Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2013, the statements of financial performance, changes in net assets the statement of comparison of budget and actual amounts and cash flows 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 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. 05 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. The municipality did not review the residual values, depreciation method and useful lives of property, plant and equipment at each reporting date in accordance with the Standards of Generally Recognised Accounting Practice, GRAP 17, *Property, plant and equipment*, and did not assess whether there is any indication that its property, plant and equipment may be impaired in accordance with GRAP 26, *Impairment of cash-generating assets*, for the current and prior financial year. Property, plant and equipment with a total cost of R2 643 817 (2012: R2 643 817) are included in the financial statements at a zero net carrying amount while still being in use. I was not able to determine the correct net carrying amount of infrastructure assets, as it was impracticable to do so. Additionally, there is a consequential impact on the impairment losses in the statement of financial performance, surplus for the period and the accumulated surplus.
5. I was unable to obtain sufficient appropriate audit evidence regarding property, plant and equipment, as I could not physically verify the assets due to a lack of information on the asset register. I was unable to confirm the physical assets by alternative means. Consequently, I was unable to determine whether any adjustment relating to property, plant and equipment stated at R688 497 473 (2012: R677 671 114) in the financial statements was necessary.

Unauthorised expenditure

6. I was unable to obtain sufficient appropriate audit evidence for unauthorised expenditure due to the limitations placed on my audit of property plant and equipment, **expenditure and the lack of a proper system in place to account for and identify** unauthorised expenditure. I was unable to confirm the balances by alternative means. Consequently, I was unable to determine whether any adjustments to unauthorised expenditure stated at R328 397 319 (2012: R268 340 970) in the financial statements were necessary.

Revenue from exchange transactions

7. The municipality did not correctly account for municipal accounts for service charges, which resulted in revenue and receivables being understated by R1 343 334. Additionally, there is a consequential impact on the surplus for the period and the accumulated surplus. I was unable to obtain sufficient appropriate audit evidence for revenue from exchange transactions as the municipality had an inadequate system of internal control to account for revenue and keep proper record of service charges, rental of facilities and equipment and other income. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to revenue from exchange transactions stated at R71 520 131 (2012: R42 869 044) in the financial statements were necessary. Additionally, there is a consequential impact on the surplus for the period and the accumulated surplus.

Revenue from non-exchange transactions

8. I was unable to obtain sufficient appropriate audit evidence for revenue from non-exchange transactions as the municipality had an inadequate system of internal control to account for revenue and keep proper record of taxation revenue and transfer revenue. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to revenue from non-exchange transactions stated at R59 425 633 (2012: R94 556 081) in the financial statements were necessary. Additionally, there is a consequential impact on the surplus for the period and the accumulated surplus.

Irregular expenditure

9. The municipality made payments in contravention of Supply Chain Management (SCM) requirements, but these were not included as irregular expenditure, resulting in irregular expenditure being understated by the amount of R2 319 757. In addition, I was unable to obtain sufficient appropriate audit evidence as the municipality could not provide all the required supporting documentation and evidence that management has properly identified, investigated and recorded all irregular expenditure. I was unable to confirm the balances by alternative means. Consequently, I was unable to determine whether any adjustments to irregular expenditure stated at R53 911 678 (2012: R52 548 895) in the financial statements was necessary.

Employee-related cost

10. I was unable to obtain sufficient appropriate audit evidence for employee-related cost as the municipality could not provide all the required supporting documentation for employee files, overtime and allowances paid to employees. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to employee related cost at R43 299 005 (2012: R35 733 550) in the financial statements were necessary.



11. I was unable to obtain sufficient appropriate audit evidence for the receivable for VAT as the municipality could not provide all the required supporting documentation to verify the calculations made by management for the VAT returns. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to payables for VAT stated at R35 216 638 (2012: R729 821) in the financial statements was necessary. Additionally, I could not determine the possible effect of all the limitations in this report on the receivables for VAT.

Depreciation and amortisation

12. I was unable to obtain sufficient appropriate audit evidence regarding depreciation and amortisation, due to the scope limitation placed on my audit of property, plant and equipment. I was unable to confirm the depreciation and amortisation by alternative means. Consequently, I was unable to determine whether any adjustments relating to depreciation and amortisation stated at R 33,810,403 (2012: R27 010 106) in the financial statements were necessary.

Payables from exchange transactions

13. I was unable to obtain sufficient appropriate audit evidence for payables from exchange transactions as the municipality could not provide all the required supporting documentation. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to payables from exchange transactions at R31 780 090 (2012: R28 920 439) in the financial statements were necessary.

Unspent conditional grants and receipts

14. I was unable to obtain sufficient appropriate audit evidence for unspent conditional grants and receipts as the municipality could not provide all the required supporting documentation to establish whether all transactions took place in accordance with the conditions of each grant and whether the expenditure against the grants should have been transferred to revenue in the statement of financial performance. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to unspent conditional grants and receipts stated at R21 224 340 (2012: R18 932 368) in the financial statements were necessary.

Capital commitments

15. I was unable to obtain sufficient appropriate audit evidence for capital commitments, due to an inadequate contract management system, incomplete contract register and lack of supporting documentation for the corresponding figure. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments to commitments stated at R17 098 612 (2012: R27 190 628) in the financial statements were necessary.

Receivables from non-exchange transactions

16. I was unable to obtain sufficient appropriate audit evidence for trade receivables from exchange transactions as the municipality could not provide all the required supporting documentation. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to receivables from non-exchange transactions stated at R13 328 738 (2012: R13 672 762) in the financial statements were necessary.

Contingent liabilities

17. I was unable to obtain sufficient appropriate audit evidence for contingent liabilities as the municipality could not provide all the required supporting documentation to verify that all contingent liabilities have been disclosed and at the correct amount. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to contingent liabilities stated at R6 452 439 (2012: R747 300) in the financial statements were necessary.

Investment property

18. I was unable to obtain sufficient appropriate audit evidence regarding investment property, as I could not obtain sufficient proof of ownership. I was unable to confirm the investment property by alternative means. Consequently I was unable to determine whether any adjustment relating to investment property stated at R6 220 595 (2012: R6 354 655) in the financial statements was necessary.

Receivables from exchange transactions

19. I was unable to obtain sufficient appropriate audit evidence for trade receivables from exchange transactions as the municipality could not provide all the required supporting documentation. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to receivables from exchange transactions stated at R2 336 582 (2012: R1 778 022) in the financial statements were necessary.

Consumer deposits

20. I was unable to obtain sufficient appropriate audit evidence for consumer deposits as the municipality could not provide all the required supporting documentation to verify that all consumer deposits have been disclosed and at the correct amount. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to consumer deposits stated at R1 383 452 (2012: R841 190) in the financial statements were necessary.

Long-term debtors

21. The municipality did not disclose long-term debtors in accordance with GRAP 1, *Presentation of financial statements*. Current and non-current assets must be disclosed as separate classifications on the face of its statement financial position. Long-term debtors were not disclosed in accordance to the GRAP mentioned above. As the municipality did not maintain adequate records of long-term debtors, I was not able to determine the full extent of the understatement in long-term debtors as it was impracticable to do so.

Expenditure

22. During 2012 I was unable to obtain sufficient appropriate audit evidence about expenditure. I was unable to confirm the expenditure by alternative means. Consequently, I was unable to determine whether any adjustment to expenditure stated at R42 906 455 was necessary. 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 effect of this matter on the comparability of the current period's figures.

Current employee benefits

23. During 2012 I was unable to obtain sufficient appropriate audit evidence about current employee benefits. I was unable to confirm the current employee benefits by alternative means. Consequently, I was unable to determine whether any adjustment to current employee benefits stated at R5 047 427 was necessary. 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 effect of this matter on the comparability of the current period's figures.

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 adjustment relating to the cash flow statement in the financial statements was necessary.

Material losses

25. I was unable to obtain sufficient appropriate audit evidence regarding distribution losses. I was unable to confirm the full extent of distribution losses by alternative means. Consequently, I was unable to determine whether any adjustments relating to distribution losses in the financial statements were necessary.

Financial sustainability

26. 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 Municipal Finance Management Act. The financial statements did not disclose any details of the uncertainty as per note 1.3 to the financial statements and have been prepared on a 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.

Aggregation of immaterial uncorrected misstatements

27. 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:
- Intangible assets reflected as R753 288 are overstated by R266 987.
28. In addition, I was unable to obtain sufficient appropriate audit evidence and was unable to confirm the following elements by alternative means.
- Inventory of R575 453 as included in the disclosed balance of R575 453.
29. As a result, I was unable to determine whether any adjustments to these elements 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.

Emphasis of matters

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

Significant uncertainties

32. With reference to note 4 to the financial statements, the municipality has three active landfill sites. The landfill sites are not licensed as required by the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008). No provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

33. As disclosed in note 32 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered during the year ended 30 June 2013 in the financial statements of the Tsantsabane Local Municipality at, and for the year ended, 30 June 2012.

Material underspending of the conditional grant

34. As disclosed in note 20 to the financial statements, the municipality has materially underspent the budget on the municipal infrastructure grant and department of water affairs grant to the amounts of R4 575 410 and R11 396 817, respectively. As a consequence, the municipality has not achieved its objectives of providing infrastructure for service delivery.

Additional matters

35. 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

36. The annual report has not been received at the date of this report with the result that a conclusion could not be drawn on the consistency between the financial statements and the audit report with other information included in the annual report.

Unaudited supplementary schedules

37. 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 schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

38. In accordance with the Public Audit Act 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

39. The annual performance report was not presented for audit and consequently my findings below are limited to the procedures performed on the strategic planning and performance management documents.
40. The information was assessed to determine whether performance indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury *Framework for managing programme performance information* (FMPPI).

41. The material findings are as follows:

Usefulness of information

42. The National Treasury's FMPPi requires that the time period or deadline for delivery be specified. Hundred per cent of the targets were not time bound in specifying a time period or deadline for delivery. This was due to the fact management was aware of the requirements of the FMPPi but chose not to apply the principles contained therein.
43. The National Treasury FMPPi requires that it must be possible to validate the processes and systems that produce the indicator. Hundred per cent 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 key controls in the relevant systems of collection, collation, verification, storage of actual performance information.

Compliance with laws and regulations

44. I performed procedures to obtain evidence that the municipality had 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 Public Audit Act, are as follows:

Strategic planning and performance management

45. The municipal council did not consult with the local community in the drafting and implementation of the municipality's IDP as required by section 28 of the Municipal Systems Act, 2011 (Act No. 7 of 2011) (MSA) and Municipal planning and performance management regulations (MPPMR) regulation 15(1)(a)(i).
46. 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 MPPMR regulation 15(3).
47. The accounting officer of the municipality did not by 25 January assess the performance of the municipality during the first half of the financial year, as required by section 72(1)(a)(ii) of the Municipal Finance Management Act.
48. A performance audit committee was not in place and the audit committee was not used to fulfil the performance audit committee function, as required by MPPMR regulation 14(2)(a).
49. The internal audit did not audit the results of performance measurements, as required by section 45(1)(a) of the Municipal Systems Act and MPPMR regulation 14(1)(a).
50. The internal audit unit did not assess the functionality of the performance management system, as required by MPPMR regulation 14(1)(b)(i).
51. 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 MPPMR regulation 14(1)(b)(iii).
52. The annual performance report for the financial year under review was not prepared and was not included in the annual report, as required by section 46 of the Municipal Systems Act and section 121(3)(c) of the Municipal Finance Management Act.
53. The annual performance report for the year under review does not include the performance of the municipality and a comparison of the performance with set targets, as required by section 46 (1)(a)/(b) of the Municipal Systems Act.

Budgets

54. 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.
55. 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 Municipal Finance Management Act.

Annual financial statements, performance and annual reports

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 of non-current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a disclaimer audit opinion.
57. The annual report for the year under review does not include the detail, as required by section 121(3) of the Municipal Finance Management Act.

Audit committee

58. An audit committee was not in place, as required by section 166(1) of the Municipal Finance Management Act.

Internal audit

59. 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 or report to the audit committee on matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management and loss control.
60. The internal audit unit did not advise the accounting officer or report to the audit committee on matters relating to compliance with the Municipal Finance Management Act, Division of Revenue Act and other applicable legislation, as required by section 165(2)(b)(vii) of the Municipal Finance Management Act.

Procurement and contract management

61. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by Supply Chain Management regulation 17(a) and (c).
62. 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 Supply Chain Management policy in contravention of Supply Chain Management regulation 16(b) and 17(b).
63. Bid specifications for procurement of goods and services through competitive bids were drafted in a biased manner that did not allow all potential suppliers to offer their goods or services, in contravention of Supply Chain Management regulation 27(2)(a).

64. Bid specifications were not always drafted by bid specification committees which were composed of one or more officials of the municipality as required by Supply Chain Management regulation 27(3).
65. Invitations for competitive bidding were not always advertised for the required minimum period of days, as required by Supply Chain Management regulation 22(1) & 22(2).
66. Bids were not always evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services or at least one Supply Chain Management practitioner of the municipality as required by Supply Chain Management regulation 28(2).
67. Bid adjudication was not always done by committees which were composed in accordance with Supply Chain Management regulation 29(2).
68. Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the Construction Industry Development Board (CIDB) and qualified for the contract in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A).
69. Contracts and quotations were awarded to and accepted from providers whose tax matters had not been declared by the South African Revenue Service (SARS) to be in order, as required by Supply Chain Management regulation 43.
70. 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 Supply Chain Management regulation 13(c).
71. Awards were made to providers who are in the service of other state institutions are in the service of other state institutions, in contravention of Municipal Finance Management Act 112(j) and Supply Chain Management regulations 44.
72. A list of accredited prospective providers was not in place for procuring goods and services through quotations as required by Supply Chain Management regulation 14(1)(a).
73. 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 Supply Chain Management regulation 14(1)(a)(ii) and 14(2).
74. The municipality did not implement an Supply Chain Management policy as required by section 111 of the Municipal Finance Management Act.

Human resource management

75. An acting municipal manager, chief financial officer and head of Supply Chain Management were appointed for a period longer than six months, in contravention of section 54A(2A) of the Municipal Systems Act.
76. Appointments were made in posts which were not provided for in the approved staff establishment of the municipality, in contravention of section 66(3) of Municipal Systems Act.
77. An approved staff establishment was not in place, as required by section 66(1)(a) of the Municipal Systems Act.
78. The competencies of financial and Supply Chain Management officials were not assessed in a timely manner in order to identify and address gaps in competency levels as required by the Municipal regulations on minimum competency levels regulation 13.

79. The municipality did not develop and adopt appropriate systems (policies) and procedures to monitor, measure and evaluate performance of staff in contravention of Municipal Systems Act section 67(d).

Expenditure management

80. 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.
81. An effective system of expenditure control, including procedures for the payment of funds, was not in place, as required by section 65(2)(a) of the Municipal Finance Management Act.
82. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the Municipal Finance Management Act.

Conditional grants

83. The municipality did not submit quarterly performance reports to the transferring national officer, the provincial treasury and the National Treasury, within 30 days after the end of each quarter, as required by section 12(2)(c) of Division of Revenue Act.
84. The municipality did not evaluate its performance in respect of programmes funded by the allocation or 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 Division of Revenue Act.

Revenue management

85. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the Municipal Finance Management Act.

Asset and liability management

86. An adequate management, accounting and information system which accounts for assets and liabilities was not in place, as required by section 63(2)(a) of the Municipal Finance Management Act.
87. An effective system of internal control for assets and liabilities was not in place, as required by section 63(2)(c) of the Municipal Finance Management Act.
88. The municipality did not establish an investment policy that was adopted by council, as required by section 13(2) of the Municipal Finance Management Act and Municipal investment regulation 3(1)(a).

Management of consequences

89. Unauthorised 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 Municipal Finance Management Act.
90. 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 Municipal Finance Management Act.
91. 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 Municipal Finance Management Act.
92. Authorisation of unauthorised expenditure was not done through an adjustment budget, as required by section 32(2) of the Municipal Finance Management Act.
93. The accounting officer or 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) of the Municipal Finance Management Act.

Internal control

94. 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

95. The accounting officer position was vacant for part of the year and the chief financial officer position was vacant for the full year under review.
96. The acting accounting officers did not evaluate whether management had implemented effective internal controls by gaining an understanding of how senior management members had met their responsibilities in terms of preparing bank reconciliations, ensuring proper records management, maintaining an asset register and preparing the annual financial statements.
97. The acting accounting officers and senior management did not take timeous and adequate action to address weaknesses in the finance and Supply Chain Management directorate, which resulted in non-compliance with applicable legislation and gave rise to unauthorised, fruitless and wasteful and irregular expenditure.
98. The acting accounting officers and senior management of the municipality did not ensure that internal control procedures were developed, implemented and monitored to ensure that daily disciplines were performed and reviewed.
99. The lack of decisive action to mitigate emerging risks, implement timely corrective measures and address non-performance was evidenced 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 recurring in the current year.
100. The acting accounting officers and senior management failed to implement adequate controls to ensure compliance with laws, regulations and internally designed policies and procedures. As a result, significant non-compliance issues were noted.

Financial and performance management

101. Effective performance systems, processes and procedures as well as the management thereof had not been adequately developed and implemented, which resulted in the annual performance report not being prepared and submitted and annual financial statements being submitted late.
102. Inadequate filing procedures at the municipality resulted in limitations of scope during the current and previous year's audits. As a result significant difficulties were experienced in respect of the availability of information.
103. The financial statements were not properly reviewed for completeness and accuracy prior to submission for auditing. This resulted in many findings relating to incorrect disclosure.
104. The municipality did not have the capacity to address backlog issues and financial system problems, resulting in the need to appoint consultants. Consultants assisted with the preparation of an asset register and annual financial statements.

105. Finance staff had an insufficient understanding of the accounting framework. This contributed towards the numerous qualifications in the financial statements of the municipality.
106. Regular, accurate and complete financial reports were not compiled and reviewed by the finance unit of the municipality and were supported and evidenced by reliable information.

Governance

107. The annual financial statements contained numerous inaccuracies, which are attributable to weaknesses in the design and implementation of internal control in respect of financial management and financial reporting, and weaknesses in the information systems.
108. The municipality did not have a documented fraud prevention plan. Internal control deficiencies were not identified and communicated in a timely manner to allow for corrective action to be taken. The implementation of external audit recommendations was not monitored. This resulted in the prior year audit findings not being substantially addressed.
109. Management did not implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.
110. Although the municipality had an internal audit division, it was not adequately resourced and functioning to identify internal control deficiencies and provide recommendations.
111. An audit committee and performance audit committee was not in place for the financial year.

Auditor General

Kimberley

30 November 2013



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence