



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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the financial statements of the Tswaing Local Municipality set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended and the notes, comprising of 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), the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), 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 that management has properly managed and accounted for property, plant and equipment for the current and prior year due to the lack of proper substantiating accounting records. I was unable to confirm the property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustment to property, plant and equipment of R87 649 333 (2012: R47 441 123) disclosed in note 5 to the financial statements was necessary.
5. During 2012, the municipality did not recognise all property as property, plant and equipment in accordance with SA Standards of GRAP, GRAP 17, *Property, plant and equipment*. The municipality acquired assets that were incorrectly expensed as repairs and maintenance. Consequently, repairs and maintenance and the accumulated deficit was thus overstated by R1 074 567 and R1 097 361 respectively and general expenses understated by R683 394. 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.
6. The municipality did not review the residual values and useful lives of property, plant and equipment at each reporting date or assessed whether there is any indication that an asset may be impaired in accordance with SA Standards of GRAP, GRAP 17, *Property, plant and equipment*. The municipality's records did not permit the performance of alternative audit

procedures. Consequently, I was unable to practicably determine the resulting misstatement in the depreciation expense of R1 344 605 (2012: R697 153) as per the statement of financial performance and property, plant and equipment of R87 649 333 (2012: R47 441 123) as disclosed in note 5 to the financial statements.

7. The municipality did not correctly disclose the amounts in the different classes of assets in accordance with SA Standards of GRAP, GRAP 17, *Property, plant and equipment*. A difference of R7 557 550 (2012: R4 423 447) was identified between the amounts as disclosed in the statement of financial position and the total amount as disclosed in note 5 to the financial statements. The municipality's records did not permit the application of alternative audit procedures. Consequently I was unable to determine whether any adjustment relating to the disclosure of these amounts in the financial statements was necessary.

Commitments

8. The municipality did not disclose any commitments (approved but not yet contracted) in the notes to the financial statements as required by SA Standards of GRAP, GRAP 17: *Property, plant and equipment*. No commitments were recognised by the municipality. Consequently, commitments (approved but not yet contracted) are understated by R42 100 000.
9. I was unable to obtain sufficient appropriate audit evidence that management has managed and accounted for all commitments (approved and contracted) for the current year due to the lack of proper substantiating accounting records. I was unable to confirm the commitments (approved and contracted) by alternative means. Consequently, I was unable to determine whether any adjustment to commitments disclosed in note 33 to the financial statements were necessary.
10. During 2012, I was unable to obtain sufficient appropriate audit evidence that management has properly managed and accounted for commitments for the prior year due to the lack of proper substantiating accounting records. I was unable to confirm the commitments by alternative means. Consequently, I was unable to determine whether any adjustment to commitments of R45 934 319 disclosed in note 33 to the financial statements were 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.

Accumulated surplus/deficit

11. I was unable to obtain sufficient appropriate audit evidence that management has properly managed and accounted for the accumulated surplus/(deficit) for the current and prior year due to the lack of proper substantiating accounting records. I was unable to confirm the accumulated surplus/(deficit) by alternative means. Consequently, I was unable to determine whether any adjustments to the accumulated surplus/(deficit) of R64 947 138 (2012: R7 775 850) disclosed in the financial statements was necessary.

Trade and other receivables

12. I was unable to obtain sufficient appropriate audit evidence that management has properly managed and accounted for trade and other receivables for the current and prior year due to the lack of proper substantiating accounting records. I was unable to confirm the trade and other receivables by alternative means. Consequently, I was unable to determine whether any adjustments to trade and other receivables of R158 303 105 (2012: R146 828 826) disclosed in note 2 to the financial statements was necessary.
13. The municipality did not assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets may be impaired in accordance with SA Standards of GRAP, GRAP 104: *Financial instruments*. The municipality did not assess consumer debtors, individually or by category, for any indication that these assets may be impaired. The municipality's system did not allow the performance of alternative audit procedures to practicably determine the extent of the misstatement in the provision for debt impairment. Consequently, I was unable to determine whether any

adjustments to the provision for debt impairment of R119 499 108 (2012: R119 499 108) and trade and other receivables of R38 803 997 (2012: R27 329 718) to the financial statements was necessary.

Expenditure

14. I was unable to obtain sufficient appropriate audit evidence that management has properly managed and accounted for expenditure for the current and prior year due to the lack of proper substantiating accounting records. I was unable to confirm the expenses by alternative means. Consequently, I was unable to determine whether any adjustments to expenditure of R48 440 071 (2012: R58 814 292) disclosed in the financial statements was necessary.
15. During 2012, the municipality made various accounting errors in accordance with SA Standards of GRAP, GRAP 1, *Presentation of financial statements*. VAT was not claimed on expenses incurred, interest paid was incorrectly classified as general expenses, prior year expenses were incorrectly recognised, employee costs were incorrectly classified as general expenses and penalties and bank charges were not being recorded. Consequently, the corresponding figures for VAT payable and cash and cash equivalents were overstated by R2 396 955 and R725 832 respectively and the corresponding figures for the accumulated deficit, finance cost, personnel cost, inventory understated by R5 493 494, R56 036, R963 737 and R272 021 respectively. 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.
16. During 2012 I was unable to obtain sufficient appropriate audit evidence about bulk purchases. I was unable to confirm the bulk purchases by alternative means. Consequently I was unable to determine whether any adjustment to bulk purchases stated at R33 207 516 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 financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

Employee benefits

17. The municipality did not disclose any employee benefits in the financial statements as required by SA Standards of GRAP, GRAP 25, *Employee benefits*. Consequently, employee benefits and general expenses are understated by R32 424 000 (2012: R23 760 000).

Irregular expenditure

18. Section 125(2)(d)(i) of the MFMA requires the municipality to disclose particulars of irregular expenditure. The municipality made payments in contravention of the supply chain management(SCM) regulations which were not included in irregular expenditure disclosed in note 31 to the financial statements, resulting in irregular expenditure being understated by R13 110 315 (2012: R16 371 760). In addition, I was unable to obtain sufficient appropriate audit evidence for the irregular expenditure as disclosed. I was unable to confirm the irregular expenditure by alternative means. Consequently, I was unable to determine whether any further adjustments to irregular expenditure of R36 314 199 (2012: R129 322) disclosed in note 31 to the financial statements was necessary.

Revenue

19. I was unable to obtain sufficient appropriate audit evidence for revenue received, as internal controls were not established over the collection thereof prior to the initial entry into the financial records. I was unable to confirm the revenue by alternative means. Consequently I was unable to determine whether any adjustments to revenue of R174 383 781 (2012: R138 873 671) disclosed in the financial statements were necessary.
20. During 2012, the municipality incorrectly accounted for funds withheld by National Treasury in accordance with SA Standards of GRAP, GRAP 1, *Presentation of financial statements* by incorrectly allocating the withholding of the allocation. Consequently, the equitable share was

understated and unspent conditional grants overstated by R5 070 000. 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.

21. The municipality did not correctly disclose receivables and revenue in the different classes of exchange and non-exchange in accordance with SA Standards of GRAP, GRAP 9, *Revenue from exchange transactions* and GRAP 23, *Revenue from non-exchange transactions*. The municipality's records did not permit the application of alternative audit procedures. Consequently I was unable to determine whether any adjustment relating to the disclosure of these amounts in the financial statements were necessary.

Unspent conditional grants

22. I was unable to obtain sufficient appropriate audit evidence that management has properly managed and accounted for unspent conditional grants for the current and prior year due to the lack of proper substantiating accounting records. I was unable to confirm the unspent conditional grants by alternative means. Consequently, I was unable to determine whether any adjustment to unspent conditional grants of R2 617 830 (2012: R27 125 969) disclosed in note 9 to the financial statements was necessary.

VAT payable

23. I was unable to obtain sufficient appropriate audit evidence that management has properly managed and accounted for VAT payable for the current and prior year due to the lack of proper substantiating accounting records. I was unable to confirm the VAT payable by alternative means. Consequently, I was unable to determine whether any adjustments to VAT payable of R3 350 407 (2012: R5 172 108) disclosed in note 8 to the financial statements was necessary.
24. During 2012, the municipality under declared output VAT of R305 306 and input VAT of R2 419 264 on the VAT201 forms submitted to the South African Revenue Services. A difference between the amount due by the South African Revenue Services and the VAT payable balance was also noted. Consequently, VAT payable was overstated by R9 298 343 and general expenses, revenue and the accumulated deficit overstated by R2 419 264, R305 306 and R7 184 385 respectively. 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.

Provisions

25. I was unable to obtain sufficient appropriate audit evidence for provisions disclosed in the financial statements and I could not confirm these provisions by alternative means. Consequently I was unable to determine whether any adjustment to provisions of R9 691 000 (2012: R9 691 000) disclosed in note 11 to the financial statements were necessary.

Trade and other payables

26. The municipality did not have an adequate creditors system, which resulted in payables and expenditure being understated by R14 650 002 (2012: R1 175 668). In addition, I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as trade and other payables and I could not confirm the disclosure by alternative means. Consequently, I was unable to determine whether any further adjustment to accounts payable stated at R44 063 561 (2012: R40 842 049) in note 6 to the financial statements were necessary.
27. During 2012, the municipality did not pay over employee and municipal contributions to the South African Revenue Service, group life insurance funds, pension funds and medical aid schemes. Consequently, payables from exchange transactions of R40 842 051 was understated by R9 127 934, personnel costs understated by R5 066 997 and cash and cash equivalents overstated by R4 060 937. 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.

Unauthorised Expenditure

28. During 2012, the municipality did not include particulars of unauthorised expenditure in the notes to the financial statements as required by section 125 of the MFMA, resulting in unauthorised expenditure being understated by R2 184 087. In addition, I was unable to obtain sufficient appropriate audit evidence that management has properly managed and accounted for unauthorised expenditure for the current and prior year due to the lack of proper substantiating accounting records. I was unable to confirm the unauthorised expenditure by alternative means. Consequently, I was unable to determine whether any adjustments to unauthorised expenditure of R12 354 673 (2012: R11 233 941) in note 31.1 to the financial statements was necessary.

Fruitless and wasteful expenditure

29. I was unable to obtain sufficient appropriate audit evidence that management has properly managed and accounted for fruitless and wasteful expenditure for the current and prior year due to the lack of proper substantiating accounting records. I was unable to confirm the fruitless and wasteful expenditure by alternative means. Consequently, I was unable to determine whether any adjustments to fruitless and wasteful expenditure of R1 465 213 (2012: R466 820) in note 31.2 to the financial statements was necessary.

Prior period errors

30. The municipality did not disclose details of adjustments relating to prior period errors in note 41 to the financial statements as required by the SA Standards of GRAP, GRAP 3, *Accounting policies, estimates and errors*. The nature, the amount of the correction for each financial statement line item affected and the amount of the correction at the beginning of the earliest prior period should be disclosed. I was unable to obtain sufficient appropriate audit evidence regarding the nature of the prior period adjustments made. I was unable to confirm the full extent and the nature of the misstatement by alternative means.

Employee cost

31. During 2012, I was unable to obtain sufficient appropriate audit evidence that management had properly managed and accounted for employee cost for the prior year due to the lack of proper substantiating accounting records. I was unable to confirm the employee cost by alternative means. Consequently, I was unable to determine whether any adjustments to employee cost of R49 400 562 disclosed in the financial statements 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.

32. During 2012, the municipality incorrectly calculated the bonus accrual and numerous other errors were noted in employee related costs in accordance with SA Standards of GRAP, GRAP 1, *Presentation of financial statements*. Consequently, employee related cost was understated by R2 361 222 and payables from exchange transactions and receivables from non-exchange transactions also understated by R2 621 852 and R260 630 respectively. 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.

Material losses

33. The municipality did not disclose material losses for both the current and the prior year in the notes to the financial statements as required by section 125(2)(d)(i) of the MFMA. I was unable to obtain sufficient appropriate audit evidence to confirm the completeness of distribution



losses by alternative means. Consequently I was unable to determine whether any adjustment relating to material losses disclosed in the financial statements was necessary.

Consumer deposits

34. During 2012, I was unable to obtain sufficient appropriate audit evidence that management has properly managed and accounted for consumer deposits for the prior year due to the lack of proper substantiating accounting records. I was unable to confirm the consumer deposits by alternative means. Consequently, I was unable to determine whether any adjustment to consumer deposits of R1 190 170 disclosed in note 7 to the financial statements 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

35. I was unable to obtain sufficient appropriate audit evidence that the cash flow statement for the current and prior year is fairly presented due to the lack of proper substantiating accounting records. I was unable to confirm the fair presentation of the cash flow statement by alternative means. Consequently, I was unable to determine whether any adjustment to the cash flow statement disclosed in the financial statements was necessary.

Budget information

36. The municipality did not disclose any budget information in the notes to the financial statements as required by the SA Standards of GRAP, GRAP 24, *Presentation of budget information in financial statements*.

Going concern

37. The municipality prepared financial statements on a going concern basis. There is however a number of factors that indicate that its financial sustainability is under threat. These significant uncertainties were not disclosed to the financial statements as required by SA Standards of GRAP, GRAP 1, *Presentation of financial statements*.

Risk management

38. The municipality did not disclose its exposure to risks arising from financial instruments as required by SA Standards of GRAP, GRAP 104, *Financial instruments*. Consequently, I was unable to determine whether any adjustment to the risk management disclosure in note 40 to the financial statements was necessary.

Disclaimer of opinion

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

Additional matters

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

Unaudited supplementary schedules

41. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these annexures and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS



42. 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

43. 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.
44. 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 priorities or objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury Framework for managing programme performance information (FMPPI).
45. The reliability of the information in respect of the selected development priorities and objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
46. The material findings are as follows:

Usefulness of information

47. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires that the integrated development 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 27% of the reported objectives, 31% of the reported indicators and 51% of the reported targets are not consistent with the objectives, indicators and targets as per the approved integrated development plan. This is due to the lack of oversight exercised by those charged with governance, on the implementation of the performance management system.
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. Adequate and reliable corroborating evidence could not be provided for 94% of measures taken to improve performance as disclosed in the annual performance report. The municipality's records did not permit the application of alternative audit procedures as the corrective measures defined did not clearly relate to source documentation to be inspected. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the reliability of the measures reported to have been taken to improve performance.
49. The FMPPI requires that performance indicators be well defined and verifiable and targets be specific, measureable and time bound:
- A total of 32% of the targets were not specific in clearly identifying the nature and the required level of performance.
 - The required performance could not be measured for a total of 70 % of the targets.
 - A total of 27% of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently.
 - A total of 82% of the indicators were not verifiable in that valid processes and systems that produce the information on actual performance did not exist.
50. These findings are due to the fact that management was not aware of some of the requirements of the FMPPI and/or did not receive the necessary training to enable application of these principles.

Reliability of information

51. The 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 the development priorities of “Basic Services and Infrastructure Investments” and “Local Economic Development”. This was due to limitations placed on the scope of my work as the institution could not provide sufficient appropriate evidence in support of the information presented.

Compliance with laws and regulations

52. 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

53. 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.
54. 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 MFMA.
55. The annual performance report for the 2011/12 financial year was not included in the annual report, as required by section 46 of the MSA and section 121(3)(c) of the MFMA.
56. 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 MSA and Municipal Planning and Performance Management Regulation 15(1)(a)(i) (MPPMR).
57. The municipal council did not review its integrated development plan annually in accordance with an assessment of its performance measurements in terms of section 41 to the extent that changing circumstances demanded, as required by section 34 of the MSA and MPPMR regulation 3.
58. The municipality did not establish and implement a performance management system, as required by section 38(a) of the MSA.
59. The municipality did not set key performance indicators, including input indicators and output indicators in respect of each of the development priorities and objectives set out in the integrated development plan as required by section 41(1)(a) of the MSA and MPPMR regulations 1 and 9(1)(a).
60. The annual performance report for the year under review does not include the names of external service providers and detailed past achievements to enable the development of remedial actions and effective planning as required by section 46(1)(a) of the MSA.
61. 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).
62. The municipality did not give effect to its integrated development plan and conduct its affairs in a manner which was consistent with its integrated development plan, as required by section 36 of the MSA, section 21(2)(a) of the MFMA and regulation 6 of the MPPMR.

Budget

63. 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 MFMA.
64. Quarterly reports on the implementation of the budget and financial state of affairs of the municipality were not submitted to the council 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

65. The annual report for the year under review does not include an assessment by the accounting officer of any arrears on municipal taxes and service charges, as required by section 121 (3)(e) of the MFMA.
66. 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 of disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a disclaimer audit opinion.
67. 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.
68. A written explanation setting out the reasons for the delay in the tabling of the 2011/12 annual report in the council, was not submitted to council as required by section 127(3) and 133(1)(a) of the MFMA.
69. An oversight report, containing comments on the annual report, was not prepared by council within two months from the date on which the 2009/10, 2010/11 and 2011/12 annual reports were tabled in council, as required by section 129(1) of the MFMA.

Audit committee

70. 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 MFMA.
71. 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 MFMA.
72. 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.
73. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.
74. The audit committee did not review the municipality's performance management system and made recommendations to the council, as required by MPPMR regulation 14(4)(a)(ii).

Internal audit

75. The internal audit unit did not audit the performance measurements on a continuous basis, nor submitted quarterly reports on their audits to the municipal manager and the audit committee, as required by MPPMR regulation 14(1)(c).

Human resource management

76. An approved staff establishment was not in place, as required by section 66(1)(a) of the MSA.
77. The municipality did not develop and adopt appropriate systems (policies) and procedures to monitor, measure and evaluate the performance of staff, in contravention of section 67(d) of the MSA.
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 regulation 13 of the Municipal Regulations on Minimum Competency Levels.

Procurement and contract management

79. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
80. A list of accredited prospective providers was not in place for procuring goods and services through quotations as required by SCM regulation 14(1)(a).



81. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulations 17(a) & (c).
82. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).
83. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were only awarded to providers whose tax matters have been declared by the South African Revenue Service to be in order as required by SCM regulation 43.
84. Awards were made to providers whose directors are in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulation 44.

Expenditure management

85. Reasonable steps were not taken to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
86. An adequate management, accounting and information system was not in place which accounted for creditors, as required by section 65(2)(b) of the MFMA.
87. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.

Conditional grants received

88. The municipality did not submit quarterly performance reports to the transferring national officer, the relevant provincial treasury and the National Treasury, within 30 days after the end of each quarter, as required by section 12(2)(c) of the DoRA.
89. The municipality did not evaluate its performance in respect of all programmes funded by the Municipal Infrastructure Grant, the Integrated National Electrification Programme Grant, the Local Government Financial Management Grant and the Municipal Systems Improvement Grant; within two months after the end of the financial year, as required by section 12(5) of the DoRA.
90. The municipality did not submit MFMA implementation plans to National Treasury to address weaknesses in financial management, as required by the Division of Revenue Grant Framework, Gazette No.35399.

Revenue management

91. An adequate management, accounting and information system which accounted for revenue and debtors, was not in place as required by section 64(2)(e) of the MFMA.
92. An effective system of internal control for revenue and debtors was not in place, as required by section 64(2)(f) of the MFMA.
93. Sufficient audit evidence that interest had been charged on all accounts in arrears, could not be obtained as required by section 64(2)(g) of the MFMA.

Asset management

94. 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.
95. 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.

Liability management

96. An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.
97. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the MFMA.

Consequences management

98. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine the person liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.
99. Investigations were not instituted into all allegations of financial misconduct against officials of the municipality, as required by section 171(4)(a) of the MFMA.

Waste management

100. The municipality operated its wastewater treatment facilities without licenses, whilst permits could not be submitted for the waste landfill sites contravening section 20(b) of the National Environmental Management Waste Act, 2008 (Act No. 59 of 2008) (NEMWA), section 24(2)(a) of the National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA), section 20(1) of the Environmental Conservation Act, 1989 (Act No. 73 of 1989) (ECA) and section 22(1)(b) of the National Water Act, 1998 (Act No. 36 of 1998) (NWA).
101. The municipality's operational activities at its waste disposal sites and wastewater treatment facilities contravened or failed to comply with the requirements of a waste management permit or license and the regulatory provisions in terms of section 67(1)(f)&(h) of the NEMWA and section 29(4) of the ECA in instances where such were issued.
102. The municipality's waste management and disposal activities contravened or failed to comply with the requirements of section 28(1) of the NEMA, section 19 of the NWA and sections 16(1)(c)&(d) and 26(1)(b) of the NEMWA.

Internal control

103. 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

104. An overall culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the entity, does not exist. The Council do not exercise their oversight responsibility regarding financial and performance reporting and compliance and related internal controls. Due to the lack of proper HR management, skilled resources are not in place and performance is not monitored. There are no consequences for poor performance and transgressions and leadership did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities.

Financial and performance management

105. Management did not implement proper record keeping to ensure complete, relevant and accurate information is accessible and available to support financial and performance reporting. Internal controls over daily and monthly processing and reconciling of transactions do not exist and regular, accurate and complete performance reports that are supported and evidenced by reliable information are not prepared. Furthermore, management did not review and monitor compliance with applicable laws and regulations nor did they design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

Governance

106. Those charged with governance did not institute steps based on the risk assessment performed to address the risks relating the municipality and its' environment. The audit committee and the internal audit did not effectively fulfil its functions.



OTHER REPORTS

Investigations

107. An investigation by an independent firm to probe the manner in which the traffic funds are processed and recorded by the municipality, was prompted by the municipal manager. The investigation aims to establish whether all the funds were accurately processed and recorded. The investigation was finalised after year-end but not yet tabled to council at the reporting date.

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Rustenburg

30 November 2013



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence