



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

# **Report of the auditor-general to the North West provincial legislature and the council on the Ventersdorp Local Municipality**

## **Report on the financial statements**

### **Introduction**

1. I was engaged to audit the financial statements of the Ventersdorp Local Municipality set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as 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 the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (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 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**

#### **Inventories**

4. I was unable to obtain sufficient appropriate audit evidence for inventories as the municipality did not have an adequate document management system to account for inventories. I was unable to confirm inventories by alternative means. Consequently, I was unable to determine whether any adjustments relating to inventories of R3 068 546 (2014: R24 268 020) as disclosed in note 3 to the financial statements were necessary.



## Receivables from non-exchange transactions

5. The municipality did not recognise receivables from non-exchange transactions in accordance with GRAP 104 *Financial instruments* as the municipality did not assess traffic fines for indicators of impairment. I was unable to determine the full extent of the overstatement of receivables from non-exchange transactions as it was impracticable to do so. In addition, I was unable to obtain sufficient appropriate audit evidence for the provision for impairment of rates receivable or for differences between the financial statements and subsidiary ledgers. I was unable to confirm receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine the extent of any further adjustment relating to receivables from non-exchange transactions of R68 594 266 (2014: R9 540 293) as disclosed in note 6 to the financial statements and provision – bad debts of R5 440 079 (2014: R2 171 039) as disclosed in note 31 to the financial statement were necessary.

## Consumer debtors

6. I was unable to obtain sufficient appropriate audit evidence regarding consumer debtors due to the status of the accounting records. I was unable to confirm consumer debtors by alternative means. Consequently, I was unable to determine whether any adjustments relating to consumer debtors of R43 944 697 (2014: R35 434 637) as disclosed in note 8 to the financial statements and provision – bad debts of R5 440 079 (2014: R2 171 039) as disclosed in note 31 to the financial statement were necessary.

## Investment property

7. I was unable to obtain sufficient appropriate audit evidence for adjustments made to the opening balance of investment property due to the status of the accounting records. I was unable to confirm the investment property by alternative means. In addition, the municipality did not recognise investment property in accordance with GRAP 16 *Investment property* as infrastructure assets were incorrectly recognised as investment property and some investment properties were recorded at an incorrect amount. Investment property as disclosed in note 10 to the financial statements was therefore overstated by R15 869 000, property, plant and equipment as disclosed in note 11 to the financial statements understated by R7 029 000 and the accumulated surplus as disclosed in the statement of changes in net assets overstated by R8 840 000. Consequently, I was unable to determine whether any further adjustments relating to investment property of R44 141 199 (2014: R44 141 199) as disclosed in note 10 to the financial statements were necessary.

## Property, plant and equipment

8. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment due to the status of the accounting records. In addition, the municipality did not recognise all property, plant and equipment in accordance with GRAP 17 *Property, plant and equipment*, the cost of completed projects were not capitalised and assets in poor condition were not impaired. I was unable to determine the full extent of the misstatement on property, plant and equipment, investment property or inventories as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments relating to property, plant and equipment of R476 650 115 (2014: R482 676 937) as disclosed in note 11 or the depreciation and amortisation expense of R26 040 335 (2014: R27 561 452) as disclosed in note 29 to the financial statements were necessary.

## Payables from exchange transactions

9. During 2014, the municipality incorrectly recognised consumer debtors with credit balances as receivables contrary to the requirements of GRAP 1 *Presentation of financial statements*.



Consequently, the corresponding figures for both payables from exchange transactions as disclosed in note 16 to the financial statement and consumer debtors as disclosed in note 8 to the financial statements were understated by R3 838 056. My audit opinion on the financial statements for the period ended 30 June 2014 was modified accordingly. This misstatement has still not been corrected and therefore my opinion on the current period's financial statements is also modified because of the effect of this matter on the comparability of the current period's figures.

## Provisions

10. The municipality did not correctly account for provisions in terms of the requirements of GRAP 19 *Provisions, contingent liabilities and contingent assets*. Incorrect calculations in the provision for rehabilitation of the municipality's landfill sites resulted in the provision and the related expense being overstated by R62 607 154. Provisions were also not categorised between current and non-current liabilities. In addition, I was unable to obtain sufficient appropriate audit evidence for differences identified in the calculation of provision for long term service awards and I was unable to confirm these differences by alternative means. The disclosures made in note 19 to the financial statements are also inaccurate and unreliable. Consequently, I was unable to determine whether any further adjustments to provisions of R72 846 684 as disclosed in note 19 and provision expenses of R68 561 284 as disclosed in note 28 to the financial statements were necessary.

## Revenue

11. During 2014, the municipality did not recognise all traffic fines as revenue, in accordance with GRAP 23 *revenue from non-exchange transactions* as the municipality did not maintain adequate records of all traffic fines issued. I was unable to determine the full extent of the understatement of revenue and receivables in the financial statements. Consequently, I was unable to determine whether any adjustments relating to the corresponding figures for revenue as disclosed in the statement of financial performance of R155 497 298 and receivables from non-exchange transactions of R9 540 293 as disclosed in the statement of financial position were necessary. 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.
12. The municipality did not recognise revenue in accordance with GRAP 9 *revenue from exchange transactions* and GRAP 23 *revenue from non-exchange transactions*. Incorrect tariffs were used to calculate revenue for services rendered and the traffic fines report did not agree to the amount recognised in the financial statements. Consequently, fines of R31 370 047, service charges of R50 147 343 and property rates of R8 683 903 as per the statement of financial performance were understated by R3 122 107, R409 706 and R460 017 respectively, consumer debtors as disclosed in note 8 was understated by R409 706 and receivables from non-exchange transactions as disclosed in note 6 to the financial statements was understated by R3 582 123.
13. I was unable to obtain sufficient appropriate audit evidence for revenue as the municipality did not have an adequate document management system to account for revenue relating to service charges, property rates and licences and permits. I was unable to confirm the revenue by alternative means. Consequently, I was unable to determine whether any adjustments relating to revenue as disclosed in the statement of financial performance of R182 073 223 (2014: R155 497 298) were necessary.

## Accumulated surplus

14. Limitations placed on the audit of expenditure, revenue transactions and adjustments made to the accumulated surplus in prior years have not been resolved. The municipality's records did not permit the application of alternative audit procedures regarding these transactions and I was unable to determine the effect on other account balances and classes of transactions



included in the financial statements. Consequently, I was unable to determine whether any adjustment to the accumulated surplus of R449 025 996 (2014: R503 783 544) disclosed in the statement of financial position was necessary.

## **Cash flow statement**

15. Contrary to the requirements of GRAP 2 *cash flow statements*, the municipality's calculation of cash flows did not appropriately account for non-cash items in the cash flow statement. The municipality's records did not permit the application of alternative procedures. Consequently, I was unable to determine whether any adjustment relating to the cash flow statement and notes thereto is necessary.

## **Commitments**

16. I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as commitments as the municipality did not maintain adequate systems or records of commitments. Alternative procedures indicated that commitments are overstated by R8 834 333. Consequently, I was unable to determine whether any further adjustments relating to commitments of R21 488 761 (2014: R23 310 889) as disclosed in note 36 to the financial statements were necessary.

## **Contingencies**

17. I was unable to obtain sufficient appropriate audit evidence for contingent liabilities due to the status of the accounting records. Alternative procedures indicates that contingent liabilities of R57 546 987 were not included. Consequently, I was unable to determine whether any further adjustments relating to contingencies of R31 062 841 as disclosed in note 37 to the financial statements were necessary.

## **Related parties**

18. I was unable to obtain sufficient appropriate audit evidence for the related party disclosure as management could not provide supporting documentation for the loans made to key management. I was unable to confirm related parties by alternative means. In addition, the municipality did not disclose comparative information regarding the remuneration of councillors resulting in the comparative disclosure of related parties being understated by R3 176 616. Consequently, I was unable to determine whether any further adjustments relating to related parties of R3 846 197 as disclosed in note 38 to the financial statements were necessary.

## **Unauthorised expenditure**

19. The municipality incorrectly accounted for unauthorised expenditure contrary to the requirements of section 125 of the MFMA. This resulted in unauthorised expenditure of R109 059 840 as disclosed in note 42 to the financial statements being understated by R31 227 489.

## **Irregular expenditure**

20. I was unable to obtain sufficient appropriate audit evidence for irregular expenditure. I was unable to confirm irregular expenditure by alternative means. In addition, the municipality made payments of R12 123 307 (2014: R2 930 161) in contravention with the supply chain management requirements which were not included in irregular expenditure disclosed. As the municipality did not quantify the full extent of the irregular expenditure, it was impracticable to determine the resultant understatement. Consequently, I was unable to determine whether any further adjustment relating to irregular expenditure of R115 306 774 (2014: R115 177 949) as



disclosed in note 44 to the financial statements was necessary.

## **Distribution losses**

21. I was unable to obtain sufficient appropriate audit evidence for electricity and water distribution losses disclosed in note 45 to the financial statements as required by section 125(2)(d)(i) of the MFMA. The extent of these distribution losses could not be confirmed by alternative means. Consequently, I was unable to determine whether any adjustments relating to the disclosure of water and electricity distribution losses of R1 788 057 (2014: R872 242) and R11 078 463 (2014: R14 642 509) respectively, as disclosed in note 45 to the financial statements were necessary.

## **MFMA disclosure**

22. The municipality did not include particulars of non-compliance with the MFMA in the accounting officer's report and the notes to the financial statements, as required by section 125(2)(e) of the MFMA.

## **Aggregation of immaterial uncorrected misstatements**

23. The financial statements were materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following items making up the statement of financial position, and the statement of financial performance and the notes to the financial statements:

- Revenue from government grants and subsidies of R87 831 249 is understated by R1 991 890.
- Payables from exchange transactions of R109 485 482 is understated by R2 680 428.

In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm the following item by alternative means:

- Expenditure of R1 050 784.

Consequently, I was unable to determine whether any further adjustments to these items were necessary.

## **Disclaimer of opinion**

24. 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**

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

## **Fruitless and wasteful expenditure**

26. As disclosed in note 43 to the financial statements, fruitless and wasteful expenditure of R5 595 452 was incurred in the current year and fruitless and wasteful expenditure from prior years of R37 487 203 had not yet been dealt with in accordance with section 32 of the MFMA.

## **Going concern**

27. As disclosed in note 41 to the financial statements, the municipality is experiencing difficulties





in settling its current liabilities. These conditions, along with other matters as set forth in note 41, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

## **Additional matter**

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

## **Unaudited supplementary schedules**

29. 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**

30. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## **Predetermined objectives**

31. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2015:

- Development priority - KPA 2: Service delivery and infrastructure development on pages 75 to 84
- Development priority - KPA 3: Local economic development on pages 85 to 86

32. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

33. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPi).

34. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

35. The material findings in respect of the selected development priorities are as follows:

## **Development priority - KPA 2: Service delivery and infrastructure Development**

### **Usefulness of reported performance information**

36. The FMPPi requires that indicators be well defined and verifiable and targets be specific, measurable and time bound:



- A total of 24% of the targets were not specific.
- A total of 38% of the indicators were not verifiable.

This was because management did not adhere to the requirements of the FMPPI due to a lack of proper systems and processes and technical indicator descriptions.

## **Reliability of reported performance information**

37. The FMPPI requires auditees to 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 the reported performance information. This was due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information and the auditee's records not permitting the application of alternative audit procedures.

## **Development priority - KPA 3: Local economic development**

### **Usefulness of reported performance information**

38. The FMPPI requires indicators and targets to relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives. A total of 33% of the indicators and targets did not relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives as per the five-year integrated development plan (IDP) and service delivery and budget implementation plan (SDBIP). This was because proper performance planning and management practices had not been developed and implemented to provide for the development of performance indicators and targets included in the annual performance report and because management did not adhere to the requirements of the FMPPI due to a lack of appropriate monitoring and review processes to ensure that indicators and targets are suitably developed.

### **Reliability of reported performance information**

39. The FMPPI requires auditees to 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. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to a lack of standard operating procedures or documented system descriptions for the accurate recording of actual achievements and/or technical indicator descriptions for the accurate measurement, recording and monitoring of performance and monitoring of the completeness of source documentation in support of actual achievements review of the validity of reported achievements against source documentation.

### **Additional matter**

40. I draw attention to the following matter:

### **Achievement of planned targets**

41. Refer to the annual performance report on pages 75 to 86 for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected development priorities reported in paragraphs 20 to 28 of this report.

## **Compliance with legislation**

42. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

### **Expenditure management**

43. Money owing by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.
44. Reasonable steps were not taken to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

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

45. 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 to commitments, contingent liabilities, related parties, irregular expenditure, inventory, property, plant and equipment, investment property, payables, receivables, consumer debtors, revenue, provisions, accumulated surplus, unauthorised expenditure, distribution losses, unspent conditional grants and the cash flow statement 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.
46. The 2013-14 annual report was not tabled in the municipal council within seven months after the end of the financial year as it was tabled on the 31 August 2015, as required by section 127(2) of the MFMA.
47. The oversight report, containing comments on the annual report, was not tabled and adopted by council within two months from the date on which the 2013-14 annual report was tabled, as required by section 129(1) of the MFMA.

### **Internal audit**

48. The internal audit unit did not function as required by section 165(2) of the MFMA, in that:
- It did not advise the accounting officer and report to the audit committee on matters relating to internal controls, accounting procedures and practices, risk and risk management and loss control.
  - It did not report to the audit committee on the implementation of the internal audit plan.
49. The internal audit unit did not advise the accounting officer and report to the audit committee on matters relating to compliance with the MFMA, the DoRA and other applicable legislation, as required by section 165(2)(b)(vii) of the MFMA.

### **Audit committee**

50. 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.

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

51. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant Provincial Treasury as required by regulation 14(2)(a) of the





## **Asset management**

- 52. 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.
- 53. An effective system of internal control for assets was not in place, as required by section 63(2) (c) of the MFMA.

## **Liability management**

- 54. An effective system of internal control for liabilities was not in place, as required by section 63(2)(c) of the MFMA.

## **Conditional grants**

- 55. The Local Government Financial Management Grants (LGFMG) allocation was not spent in accordance with the applicable grant framework, in contravention of section 17(1) of the DoRA.
- 56. Quarterly non-financial performance reports were not submitted to the transferring national officer as required by DoRA 12(2)(c).
- 57. The municipality did not evaluate its performance in respect of programmes or functions funded by the Municipal Infrastructure Grant (MIG), Municipal Systems Improvement Grant (MSIG) and LGFMG allocation, as required by section 12(5) of the DoRA.

## **Revenue management**

- 58. An adequate management, accounting and information system which accounts for revenue, debtors and receipts of revenue was not in place, as required by section 64(2)(e) of the MFMA.
- 59. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2) (f) of the MFMA.

## **Procurement and contract management**

- 60. 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) and (c).
- 61. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
- 62. 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 SCM regulation 27(2)(a).
- 63. Bid specifications were not always drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).
- 64. 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 SCM regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.
- 65. Awards were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).
- 66. Contracts and quotation were awarded to bidders based on preference points that were not



allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act (PPPFA) and its regulations.

67. 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 SCM regulation 13(c).
68. Sufficient appropriate audit evidence could not be obtained that contracts were only extended or modified after tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.
69. Sufficient appropriate audit evidence could not be obtained that all extension or modification to contracts were approved by a properly delegated official, as required by SCM regulation 5.
70. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
71. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
72. 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 SCM regulation 43
73. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM regulation 46(2)(e), the code of conduct for councillors issued in terms of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) and the code of conduct for staff members issued in terms of the MSA.

## **Consequences management**

74. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

## **Strategic planning and performance management**

75. The performance management system and related controls were not in place as it did not describe and represent the processes of performance planning/ monitoring/ measurement/ review/ reporting/ improvement and how it is conducted, organised and managed, including determining the roles of the different role-players, as required by section 38 of the MSA and regulation 7 of the Municipal planning and performance management regulations (MPPMR).
76. The KPIs set by the municipality did not include indicators on percentage of households with access to basic level of water, sanitation, electricity and solid waste removal were not set by the municipality as required by section 43(2) of the MSA and regulation 10(a) of the MPPMR.
77. Measurable performance targets for the financial year were not set in the IDP, for each of the key performance indicators and with regard to each of the development priorities or objectives, as required by section 41(1)(b) of the MSA and regulations 12(1) and 12(2)(e) of the MPPMR.
78. Measures taken to improve performance included in the annual performance report for the year under review were not reliable as required by section 46(1)(c) of the MSA.

## **Environmental management**

79. The municipality did not exercise its legislative and executive authority as required by the sections 11(3)(l) and (m) of the MSA by managing, monitoring and enforcing environmental related bylaws to promote a safe and healthy environment.
80. The municipality operated its waste disposal sites and wastewater treatment facilities without a license in contravention of 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) and section 22(1)(b) of the National Water Act, 1998 (Act No. 36 of 1998) (NWA).

81. The municipality's operational activities at its waste disposal sites and wastewater treatment facilities contravened or failed to comply with the regulatory norms and standards as required by sections 67(1)(f) and (h) of the NEMWA and sections 151(1)(c) and (i) of the NWA.
82. 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) and (d) and 26(1)(b) of the NEMWA.

## **Internal control**

83. I considered internal control relevant to my audit of the financial statements, the annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

## **Leadership**

84. The leadership's philosophy and operating style is not contributing towards a clean administration. This is evidenced by the lack of implementation and monitoring of action plans to address prior year audit findings, the establishment of a culture of honesty, ethical business practices and good governance requires urgent intervention. Leadership failed to appoint sufficient appropriately skilled staff in key positions within the finance unit and the training and development initiatives failed to address the underlying deficiencies that caused matters to be reported on repeatedly.

## **Financial and performance management**

85. Management did not adequately monitor reporting, compliance with laws and regulations and internal control as supporting documentation submitted during the audit did not support disclosures. The inability to address prior year audit findings and staff in finance not understanding the requirements of the financial reporting framework is concerning. Management's lack of commitment to address repetitive findings relating to supply chain management regulations is indicative of financial misconduct.

## **Governance**

86. The risks which emanated from the prior year audit report were not addressed through the implementation of a risk management strategy. The internal audit did not perform any internal audits during the year and the audit committee did not monitor the implementation of audit action plans, resulting in the internal control environment over financial information and compliance with laws and regulations being ineffective.

## **Other reports**

## **Investigations**

87. An investigation is currently being conducted by the Public Protector on alleged maladministration in the awarding and payments of tenders by the municipality. The investigation was still ongoing at the reporting date.
88. An investigation is currently being conducted by the Public Protector on allegations of maladministration and impropriety in the appointment of the director technical services. The



appointment was made by council despite the MEC not issuing a letter of concurrence in this regard. The investigation was still ongoing at the reporting date.

89. An investigation is currently being conducted by the South African Police Services on the alleged fraud by the cashiers. The matter has been referred to the Public Prosecutor for decision. The investigation was still ongoing at the reporting date.

Huditor-General

Auditor-General

Rustenburg

30 November 2015



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