

**REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND  
THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE  
INFORMATION OF MATJHABENG LOCAL MUNICIPALITY FOR THE YEAR ENDED  
30 JUNE 2008**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I was engaged to audit the accompanying financial statements of the Matjhabeng Local Municipality which comprise the statement of financial position as at 30 June 2008, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages [xx] to [xx].

**Responsibility of the accounting officer for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2007 (Act No. 1 of 2007) (DoRA). This responsibility includes:
  - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
  - selecting and applying appropriate accounting policies
  - making accounting estimates that are reasonable in the circumstances.

**Responsibility of the Auditor-General**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Because of the matters discussed in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.
4. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Matjhabeng Local Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

### **Basis of accounting**

5. The municipality's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.1.

### **Basis for disclaimer of opinion**

#### **Property, plant and equipment**

6. Due to several limitations on the scope of the audit of the financial year ended 30 June 2007, I was unable to express an opinion on the completeness, existence and valuation of property, plant and equipment for the year then ended. The extent of the weaknesses identified in the system of control over items of property, plant and equipment during the current audit also did not allow for me to obtain sufficient and appropriate audit evidence by performing the audit procedures I considered necessary, or by alternative means, regarding the completeness and existence of property, plant and equipment of R561 158 061 (30 June 2007: R394 610 834), as well as the valuation and disclosure of these items in terms of the requirements of the Statement of Generally Accepted Municipal Accounting Practice, GAMAP 17 *Property, Plant and Equipment*.

#### **Consumer and other debtors**

7. Contrary to the requirements of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements*, the municipality accounted for internally charged consumer debtors of R1 438 608 (30 June 2007: R2 799 565), as included in note 10. These debtors are registered in the name of the municipality and will not result in an inflow of benefits or service potential, consequently consumer debtors and service charges income are overstated by this amount.
8. I could not be supplied with sufficient and appropriate audit evidence that the municipality had impaired its consumer and other debtors in terms of the requirements of the South African Statement of Generally Accepted Accounting Practice, IAS 39 (AC 133) *Financial Instruments: Recognition and Measurement*. The municipality only made a general provision based on the ageing of the outstanding debt. Consequently, I was unable to determine the impact of non-compliance with this accounting standard on the financial statements.
9. Consumer debtors at year-end and service charges income for the year are understated by the service charges relating to the period between the last meter reading date and the financial year-end. Contrary to the Statement of Generally Accepted Municipal Accounting Practice, GAMAP 9 *Revenue*, the revenue arising from services rendered in the last month of the financial year was not based on percentage of completion as at reporting date. The consumer debtors and service charges income were understated by R2,8 million.
10. I was unable to obtain sufficient audit assurance as to the existence of consumer debtors of R18 447 945 due to inadequate information supplied by the municipality. Furthermore, my consumer debtor confirmation procedures revealed consumer debtors of R15 233 091, which disputed the outstanding balances on their accounts, indicating a overstatement of consumer debtors at year-end due to the incorrect valuation of these debtors.

11. The following differences between the individual line items disclosed in note 10 to the financial statements pertaining to the outstanding debt per service type, and the balances as per the general ledger accounts could not be adequately substantiated by the municipality. Consequently, I was unable to obtain adequate audit assurance as to the valuation of the outstanding debt per service type disclosed in this note to the financial statements:

Debt per service type	Note 10 R	General ledger R	Difference R
Rates	180 656 364	251 541 320	(70 884 956)
Refuse and sewerage	260 186 275	296 572 644	(36 386 369)
Electricity and water	310 055 953	345 392 716	(35 336 763)
Housing rentals	479 278	472 551	6 727
Other debtors	365 549 019	222 947 656	142 601 363

12. Contrary to the requirements of the South African Statement of Generally Accepted Accounting Practice, IAS 39 (AC 133) *Financial Instruments: Recognition and Measurement* the municipality did not subsequently measure consumer debtors at amortised cost using the effective interest method.
13. With reference to note 11 an overstatement of R22 475 573 pertaining to the corresponding balance of sundry debtors was not corrected, resulting in an overstatement of the disclosed corresponding balance.
14. Sufficient and appropriate audit evidence relating to a journal of R5 430 932 that was processed with regard to provision for doubtful debt could not be obtained. The municipality's system of control over journals did not allow me to perform alternative procedures. Consequently, I was unable to obtain adequate audit assurance as to the valuation of the amount of the provision for doubtful debt of R1 082 105 757 as disclosed in note 10.

#### Trade and other payables

15. Trade and other payables (note 4), were not subsequently measured at amortised cost using the effective interest method as required by the South African Statement of Generally Accepted Accounting Practice, IAS 39 (AC 133) *Financial Instruments: Recognition and Measurement*. Based on my calculations, trade and other payables were overstated and operating expenditure understated in excess of R3,7 million.
16. Included in trade and other payables are consumer debtors who have made advance payments of R9 858 173. I was unable to gain adequate audit assurance by means of audit procedures I considered necessary or by alternative means as to the existence and valuation of this balance at year-end due to inadequate descriptions as well as a lack of movement on these consumer accounts.
17. Contrary to the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* which defines a liability as a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential, retention money of R3 012 977 (30 June 2007: R7 437 870) was not recognised as trade and other payables due to the incorrect recording of these transactions on the financial system. This resulted in an understatement by this

amount in the disclosed property, plant and equipment balance (work-in-progress) as well as trade and other payables.

18. Trade and other payables and expenditure are overstated with R42 690 165 due to the incorrect classification of balances in the financial statements.
19. During the previous financial year the municipality was unable to provide supporting documentation for trade payables of R8 196 608. No documentation was subsequently submitted. Therefore this matter remained unresolved for the year under review and I was unable to verify the existence and valuation of the corresponding figure of R211 148 367 as disclosed in note 4.
20. A difference of R5 072 063 between the corresponding balance of staff leave pay provisions to the amount of R30 441 546, as disclosed in note 4, and the balance according to the financial system could not be explained. In the absence of sufficient and appropriate audit evidence, I was unable to confirm the existence of this corresponding balance by performing audit procedures I consider necessary or by alternative means.
21. A difference of R32 032 791 was identified between the VAT balance of R32 222 116 disclosed in note 4, and the balance in terms of the VAT201 return for June 2008, indicating a overstatement of trade and other payables at year-end.
22. Reported in the prior two audit reports was an amount of R19 132 458 relating to unallocated deposits that had been written off in the 2004-05 financial year against the prior year adjustments. As the municipality is registered on the cash basis for VAT purposes, output VAT should have been declared on all vatiable amounts received by the municipality. No evidence could, however, be obtained that output VAT was declared to the South African Revenue Service (SARS) nor that these deposits of R19 132 458 were in fact non-vatiable amounts received. Should all receipts included in the unidentified deposits be subject to VAT, VAT of R2 349 599 should have been paid over to SARS. Consequently, VAT payable for both the current and corresponding balance is understated and accumulated surplus overstated by R2 349 599.

#### **Accumulated surplus**

23. Differences of R2 505 239 and R11 904 395 between the balance disclosed for accumulated surplus and the corresponding ledger account for the current year and the prior year financial statements, respectively, could not be explained. In the absence of sufficient and appropriate audit evidence I was unable to perform any alternative audit procedures and could not obtain adequate audit assurance as to the existence and valuation of the corresponding balance of R99 115 697.
24. The municipality was unable to supply sufficient and appropriate audit evidence relating to prior year adjustments of R35 578 555 pertaining to the financial year ended 30 June 2006 and adjustments of R11 904 594 pertaining to the year ended 30 June 2007, as disclosed in note 21 to the financial statements. In the absence of a proper system of control over adjustments made to the accumulated surplus, I was unable to perform the necessary tests or any alternative audit procedures to gain adequate audit assurance as to the existence and valuation of the accumulated surplus balance of the current and prior years.

25. The corresponding balance of accumulated surplus of R99 115 697 disclosed in the statement of financial position differs by R7 810 043 from the opening balance of R91 305 654, disclosed in the statement of net changes for the 2008 financial year, indicating an understatement of the balance disclosed in the statement of financial position.
26. Documentation to support transactions of R12 708 595 which were allocated to the accumulated surplus account could not be provided. In the absence of this documentation, there were no alternative means by which I could obtain sufficient and appropriate audit evidence to satisfy myself as to the accuracy and classification of these transactions.

#### **Expenditure**

27. Documentation to support expenditure transactions to the sum of R11 904 776 could not be submitted. The system of control over the recording and classification of expense transactions was not adequate and as a result there were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all these expense transactions had occurred and were correctly and accurately recorded and classified in the financial records of the municipality.
28. Contrary to the Statement of Generally Recognised Accounting Practice: GRAP1 *Presentation of Financial Statements*, which defines expenses as a decrease in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets, or increases in liabilities that result in a decrease in net assets, the municipality recognised internal charges of R15 845 285 (30 June 2007: R11 553 355). These charges do not represent an outflow or consumption of assets or increase in liability, therefore resulting in an overstatement of operating expenditure and service charges income.
29. The system of internal control over the recording and classification of expenditure items was found to be inadequate. Expenditure items of R26 619 147 were classified to the incorrect expenditure votes on the financial systems, overall resulting in an overstatement of general expenditure of R4 224 032, accumulated surplus of R1 276 277 and understatement of interest paid of R4 946 498, and trade and other payables of R1 313 247. Furthermore, VAT of R1 323 799 was not claimed on qualifying expense items, resulting in an overstatement to this amount of expenditure and the VAT liability at year-end.
30. Contrary to the requirements of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements*, the accrual basis of accounting was not consistently applied by the municipality. Expenditure of R2 361 549 was not recognised for the year under review and expenditure of R17 369 482 relating to the prior financial year was incorrectly recognised in the financial year under review. Consequently, expenditure was overstated by R15 007 932, opening balance of trade and other payables understated by R17 369 482 and the closing balance of trade and other payables understated by R2 361 549.

## Revenue

31. The incorrect classification of transactions relating to the income from sale of land and houses resulted in an overstatement of income from rental of facilities and equipment and an understatement of income from the sale of property, plant and equipment by R3 780 331.
32. The Statement of Generally Accepted Municipal Accounting Practice, *GAMAP 9 Revenue* states that when the outcome of transactions involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recognised that are recoverable. I assessed the process used by management to make estimates in instances where water meters were broken, as being inadequate and inaccurate. Consequently, service income as well as consumer debtors is materially misstated for the year under review due to the fact that the income recognised was not to the extent of recognised expenses. The municipality's system of control over these estimates did not allow me to determine the extent of the misstatements for the year under review.
33. Contrary to the requirements of the Statement of Generally Accepted Municipal Accounting Practice, *GAMAP 9 Revenue*, revenue from spot fines and summonses was not recognised based on past experience regarding amounts collected in respect of spot fines and summonses. Proof could not be obtained that the municipality had complied with this requirement, resulting in an understatement of revenue and receivables for the year under review. Due to lack of a proper system of control over such estimations, there were no satisfactory audit procedures that I could perform to determine the extent of the misstatement in the financial statements.
34. External confirmations of grants received revealed differences of R3,5 million (30 June 2007: R29 million) between these confirmations and the amounts recognised in the accounting records of the municipality, indicating a possible understatement of grants received as disclosed in the statement of financial performance. In the absence of adequate explanations and supporting documentation, I was unable to confirm the extent of the possible misstatement in the financial statements.
35. An incorrect allocation of a journal on the accounting system of the municipality resulted in an understatement of agency fees and an overstatement of other income R5 542 561 as disclosed in the statement of financial performance.
36. South African Statement of Generally Accepted Accounting Practice, IAS 20 (AC 134) *Accounting for Government Grants and Disclosure of Government Assistance* states that government grants are only recognised once reasonable assurance has been obtained that the entity will comply with the conditions attached to the grant. In the absence of sufficient and appropriate audit evidence, I was unable to confirm that the municipality had complied with the conditions attached to a specific government grant. Consequently, I was unable to verify the occurrence and accuracy of grant income of R2 085 001.
37. Contrary to accounting policy 1.13.2, the municipality did not recognise collection charges as soon as these charges were legally enforceable. Collection charges of R2 561 571 were expensed and not recovered from the relevant consumer

accounts, resulting in an overstatement of operating expenditure and understatement of consumer debtors.

#### **Interest-bearing borrowings**

38. Loan agreements for interest-bearing borrowings of R32 284 601 could not be provided. In the absence of these agreements I was unable to perform the audit procedures I considered necessary or any alternative procedures to verify the municipality's obligation towards the relevant financial institutions.
39. The Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* states that liabilities which are expected to be settled within the municipality's normal operating cycle should be classified as a current liability. Contrary to this requirement the municipality classified the current portion of interest-bearing borrowings as non-current instead of current, resulting in non-current liabilities being overstated and current liabilities being understated by R3 529 142 (30 June 2007: R39 357 503).
40. Contrary to the requirements of the South African Statement of Generally Accepted Accounting Practice, IAS 20 (AC 134) *Accounting for Government Grants and Disclosure of Government Assistance*, loan redemption payments of R2 881 813 made by the district municipality on behalf of the municipality were not accounted for in the financial records of the municipality. Consequently, government grants and subsidies income, as disclosed in note 16, and accumulated surplus were understated and interest-bearing borrowings overstated by R2 881 813.

#### **Inventory**

41. The municipality did not have a system of control over the recording of inventory items for the year under review. Consequently, I was unable to perform the audit procedures I considered necessary to confirm the completeness of inventory of R378 114 (30 June 2007: R842 950) as disclosed in note 9 to the financial statements.
42. Contrary to the requirements of the Statement of Generally Accepted Municipal Accounting Practice, GAMAP 12 *Inventories* the municipality did not account for water inventories and vacant residential sites at year-end. Consequently, inventories were understated by R8 618 421 and bulk purchases, operating expenditure and the accumulated surplus were overstated by R8 618 421 for the year under review.

#### **Provisions**

43. Included in note 5 to the financial statements is a provision of R5 564 000 made for the rehabilitation of landfill sites. I did not receive sufficient and appropriate audit evidence regarding the calculation of this provision and the assumptions made by management in provision to this amount. Consequently, I was unable to perform the audit procedures I considered necessary or gain adequate audit assurance by alternative means regarding the existence and valuation of this provision at year-end.
44. The Statement of Generally Accepted Municipal Accounting Practice, GAMAP 19 *Provisions, Contingent Liabilities and Contingent Assets* states the recognition and disclosure requirements pertaining to provisions. Contrary to these requirements, the municipality did not recognise provisions of R4 925 955 pertaining to bonuses.

Consequently, provisions and operating expenditure were understated for the year under review by R4 925 955.

#### **Bank balances and cash**

45. The municipality did not disclose in note 13 to the financial statements limited cessions of R6 900 000 pertaining to the ABSA term deposit and the ABSA call account, as required by the South African Statement of Generally Accepted Accounting Practice, IAS 32 (AC125) *Financial Instruments: Presentation*.
46. A difference of R2 753 908 between the cash book balance at the beginning of the financial year and the bank reconciliation submitted for the market bank account could not be explained. Furthermore, a difference of R5 048 802 between the cash book balance at the end of the financial year and the bank reconciliation for the same account could not be explained, indicating a understatement of operating expenditure and overstatement of bank balances and cash at year-end.

#### **Commitments**

47. The Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* states that unrecognised contractual commitments should be disclosed as part of the notes to the financial statements. Contrary to this requirement, contractual commitments of R72 441 383 were not disclosed as part of the notes to the financial statements, resulting in an understatement of commitments.
48. A comparison between the balance disclosed in note 30, commitments and the relevant supporting documentation submitted indicated that lease commitments were overstated by R2 614 647 (30 June 2007: R1 688 310).

#### **Employee benefits**

49. The South African Statement of Generally Accepted Accounting Practice, IAS 19 (AC116) *Employee Benefits*, read with the exemptions granted by National Treasury in *Government Gazette Vol. 504*, outlines the disclosure requirements pertaining to a post-employee benefit plan. Contrary to these requirements, the municipality did not make any narrative disclosure regarding the liability at year-end in terms of their post-employment benefit plan. In the absence of an actuarial valuation, I was unable to gain adequate audit assurance as to the valuation of the liability at reporting date.

#### **Related parties**

50. The South African Statement of Generally Accepted Accounting Practice, IAS 24 (AC 126) *Related Party Disclosures* outlines the disclosure requirements pertaining to related-party transactions. Contrary to these requirements, the municipality did not disclose related-party relationships and transactions of R2 543 923 (30 June 2007: R1 235 224) for the year, resulting in an understatement in this disclosure note to the financial statements.



### **Cash flow statement**

51. A difference of R2 513 709 (30 June 2007: R133 926 308) has been identified between the disclosed balance pertaining to the purchase of property, plant and equipment of R172 764 170 (30 June 2007: R140 469 123) as disclosed in the cash flow statement, and the amount of R170 250 461 (30 June 2007: R6 542 815) disclosed in note 7 to the financial statements.

### **Non-current loans and receivables**

52. The Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* states that an entity should present current and non-current assets as separate line items in the statement of financial position. Contrary to this requirement, the municipality did not disclose the portion of consumer debtors with arrangements that was not payable within the next financial year as a non-current asset. The information obtained from the financial system of the municipality was not sufficient to enable me to quantify the extent of the misstatement. Consequently current assets are overstated and non-current assets understated.

### **Leases**

53. The municipality did not comply with the disclosure requirements pertaining to operating leases as determined by the South African Statement of Generally Accepted Accounting Standards, IAS 17 (AC 105) *Leases*. The amount paid in respect of operating leases was R4 846 597 (30 June 2007: R6 593 978) for the year under review.

### **Government Grant Reserve**

54. Contrary to accounting policy 1.5.2, the municipality did not make a transfer from the accumulated surplus to the government grant reserve equal to the government grant recorded in the statement of financial performance with regard to items of property, plant and equipment purchased from government grants. As disclosed in note 16, the total income recognised with regard to the municipal infrastructure grant amounted to R127 947 608 for the year under review. Consequently, government grants reserve is understated and accumulated surplus overstated.

### **Going concern**

55. The Matjhabeng Local Municipality incurred a net loss of R23 936 676 for the year under review. The inability of the municipality to recover their outstanding debt negatively impacted on the municipality's cash flow position for the year ended 30 June 2008. This situation indicates the existence of a material uncertainty that may cast significant doubt on the municipality's ability to continue as a going concern. The municipality may therefore be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not disclose this fact.

### **Disclaimer of opinion**

56. 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 on the financial statements of the Matjhabeng Local Municipality. Accordingly, I do not express an opinion on the financial statements.

## Emphasis of matters

I draw attention to the following matters:

### Amendments to the applicable basis of accounting

57. As set out in accounting policy note 1, the National Treasury had approved a deviation from the basis of accounting applicable to the municipality in terms of *General Notice 552 of 2007*, issued in *Government Gazette No. 30013 of 29 June 2007*.

### Infrastructure grants

58. As disclosed in note 16.5 to the financial statements, municipal infrastructure grants of R56 263 000 was withheld due to non-compliance by the municipality with the requirements associated with these grants.

### Unauthorised, irregular or fruitless and wasteful expenditure as well as material losses through criminal conduct

59. As disclosed in note 24 to the financial statements, the municipality incurred unauthorised expenditure of R389 511 751 (2007: R29 301 154), fruitless and wasteful expenditure of R2 444 167 (2007: R1 822 813) and irregular expenditure of R41 979 974 (2007: R522 007) during the year under review.

### Restatement of corresponding figures

60. As disclosed in note 21 to the financial statements, the corresponding figures for 30 June 2007 have been restated as a result of various errors discovered during 2008 in the financial statements of the Matjhabeng Local Municipality at, and for the year ended 30 June 2007.

## OTHER MATTERS

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

### Internal controls

61. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the inefficiencies in the system of internal control, which led to the adverse opinion. The root causes are categorised according to the five components of an effective system of internal control. In some instances deficiencies exist in more than one internal control component.

Reporting item	Control environment	Risk assessment	Control activities	Information and communication	Monitoring
Property, plant and equipment	X	X	X		X
Consumer and other debtors		X	X		X
Trade and other payables	X				

Reporting item	Control environment	Risk assessment	Control activities	Information and communication	Monitoring
Accumulated surplus	X			X	
Expenditure		X	X		X
Revenue	X	X			X
Interest-bearing borrowings	X				
Inventory		X	X		X
Provisions			X		
Bank balances and cash	X	X	X	X	X
Commitments			X		
Employee benefits			X		
Related parties	X		X	X	X
Cash flow statement	X		X		X
Non-current loans and receivables	X		X		
Leases			X		
Irregular expenditure	X	X	X		X
Going concern	X	X	X	X	X

**Control environment:** establishes the foundation for the internal control system by providing fundamental discipline and structure for financial reporting.

**Risk assessment:** involves the identification and analysis by management of relevant financial reporting risks to achieve predetermined financial reporting objectives.

**Control activities:** policies, procedures and practices that ensure that management's financial reporting objectives are achieved and financial reporting risk mitigation strategies are carried out.

**Information and communication:** supports all other control components by communicating control responsibilities for financial reporting to employees and by providing financial reporting information in a form and time frame that allow people to carry out their financial reporting duties.

**Monitoring:** covers external oversight of internal controls over financial reporting by management or other parties outside the process; or the application of independent methodologies, like customised procedures or standard checklists, by employees within a process.

## Non-compliance with applicable legislation

### Municipal Finance Management Act, 2003

62. Contrary to the requirements of section 64(3) of the MFMA, proof could not be obtained that the accounting officer had informed National Treasury of payments due by an organ of state to the municipality in respect of municipal tax or municipal services. The outstanding government debtors as at 30 June 2008 amounted to

R7 522 325 of which R5 981 011 had been outstanding for a period of 90 days and longer.

63. Income from traffic fines was not paid into the municipality's primary bank account as required by section 8(2) of the MFMA.
64. Proof could not be obtained that the accounting officer had promptly notified National Treasury in the prescribed format regarding the municipality's bank overdrawn position as required by section 70(2) of the MFMA.
65. The executive mayor of the municipality did not table the annual budget at a council meeting at least 90 days before the start of the budget year as required by section 16(2) of the MFMA.
66. All money owing by the municipality was not paid within 30 days of receiving the relevant invoice or statement. Payments of R5 595 110 were not paid within the prescribed time frame as is required by section 65(2)(e) of the MFMA.
67. Contrary to the requirements of section 32(2)(a) of the MFMA, proof could not be obtained that the municipality had taken any steps to recover unauthorised expenditure of R58 801 154 as disclosed in note 24.1 to the financial statements.
68. Proof could not be obtained that the accounting officer had submitted the oversight report to the provincial legislature within seven days after the municipal council adopted this report, as required by section 132(2) of the MFMA.
69. Proof could not be obtained that the municipality's service delivery and budget implementation plan had been approved by the executive mayor within 28 days after the approval of the budget as required by section 53(1)(c)(ii) of the MFMA.
70. Proof could not be obtained that the accounting officer had submitted a report to the executive mayor within 10 days after the end of each month on the state of the municipality's budget as required by section 71(1) of the MFMA.
71. Contrary to the requirements of section 32(4)(a)-(c) of the MFMA, proof could not be obtained that the accounting officer had informed the executive mayor, the MEC for local government in the province and the Auditor-General in writing of any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality

**Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998)**

72. Contrary to the requirements of section 14(2)(b)(iii) of this act, three bank accounts were identified that have not been registered in the name of the Matjhabeng Local Municipality. Furthermore, properties to the value of R36 317 100 were identified which were also not registered in the name of the Matjhabeng Local Municipality.

**Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000)**

73. Proof could not be obtained that the debt collection policy of the municipality complied with all the requirements set out in section 97 of this act. Furthermore, the municipality did not adopt by-laws in terms of section 98 to give effect to the municipality's credit control and debt collection policy.
74. Contrary to section 75 of this act, proof could not be obtained that the municipal council adopted by-laws to give effect to the implementation and enforcement of its tariff policy.

**Matters of governance**

75. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

Matter of governance	Yes	No
<b>Audit committee</b>		
<ul style="list-style-type: none"> <li>The municipality had an audit committee in operation throughout the financial year.</li> </ul>	X	
<ul style="list-style-type: none"> <li>The audit committee operates in accordance with approved, written terms of reference.</li> </ul>		X
<ul style="list-style-type: none"> <li>The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.</li> </ul>		X
<b>Internal audit</b>		
<ul style="list-style-type: none"> <li>The municipality had an internal audit function in operation throughout the financial year.</li> </ul>	X	
<ul style="list-style-type: none"> <li>The internal audit function operates in terms of an approved Internal audit plan.</li> </ul>		X
<ul style="list-style-type: none"> <li>The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.</li> </ul>		X
<b>Other matters of governance</b>		
The annual financial statements were submitted for audit as per the legislated deadlines (section 126 of the MFMA).	X	
The financial statements submitted for audit were not subject to any material amendments resulting from the audit.		X
No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.		X
The prior year's external audit recommendations have been substantially implemented.		X
<b>Implementation of Standards of Generally Recognised Accounting Practice (GRAP)</b>		
<ul style="list-style-type: none"> <li>The municipality submitted an implementation plan, detailing progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 30 October 2007.</li> </ul>	X	
<ul style="list-style-type: none"> <li>The municipality substantially complied with the implementation plan it submitted to the National Treasury and the relevant provincial treasury before 30 October 2007, detailing its progress towards full compliance with GRAP.</li> </ul>		X
<ul style="list-style-type: none"> <li>The municipality submitted an implementation plan, detailing further progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 31 March 2008.</li> </ul>	X	

**Unaudited supplementary schedules**

76. The supplementary information included in appendices A to B set out on pages X to X 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.

## **OTHER REPORTING RESPONSIBILITIES**

### **REPORT ON PERFORMANCE INFORMATION**

77. I have reviewed the performance information as set out on pages xx to xx.

#### **Responsibility of the accounting officer for the performance information**

78. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (Systems Act).

#### **Responsibility of the Auditor-General**

79. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the Systems Act.

80. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

81. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

#### **Audit findings (performance information)**

##### **Non-compliance with regulatory requirements**

82. Proof could not be obtained that a copy of the municipality's integrated development plan was submitted to the MEC for local government within the prescribed time frame as required by section 32 of the Systems Act.

83. Contrary to the requirements of section 53(3) of the MFMA, proof could not be obtained that the revenue and expenditure projections for each month as well as the service delivery targets and performance indicators for each quarter were made public within the prescribed time frame.

84. Contrary to the requirements of section 43(2) and 41(1) of the Systems Act, the municipality did not report on the general key performance indicators.

85. The municipality's internal audit did not audit the results of the municipality's performance measurements as required by section 45(a) of the Systems Act.

##### **Lack of sufficient appropriate audit evidence**

86. I was unable to obtain sufficient appropriate audit evidence in relation to the performance information of the Matjhabeng Local Municipality, as the system used for generating information on the actual achievement was not adequate for purposes of the evaluation.

**APPRECIATION**

87. The assistance rendered by the staff of the Matjhabeng Local Municipality during the audit is sincerely appreciated.

*Auditor - General*

Pretoria

5 December 2008



**A U D I T O R - G E N E R A L**