

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND THE COUNCIL ON THE MATJHABENG LOCAL MUNICIPALITY

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 2011, the 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 information, as set out on pages ~~xx~~ to ~~xx~~.

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 South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA) and for such internal control as management determines 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. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. 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. Due to the matters listed below, I was not able to verify that items of property, plant and equipment of R1 108 970 390 (2010: R876 346 011), as disclosed in note 8 to the financial statements, were accounted for at the correct value, that these items did exist at year-end, that the municipality had control over these items, and that the balance reflected in the financial statements includes all the municipality's items of property, plant and equipment. The system of control over items of property, plant and equipment was not sufficient to provide me with alternative means to perform my audit on these items:
 - a) For assets with a cost price of R1 554 456 807 (2010: R880 373 176), the descriptions, serial numbers and locations as indicated in the fixed asset register were inadequate for identification purposes. Consequently, I was unable to perform all the procedures I considered necessary to obtain adequate audit assurance as to the existence, valuation and completeness of and the municipality's rights to property, plant and equipment to this amount.

- b) Documentation to support additions of R83 649 355 (2010: R24 487 272) to property, plant and equipment could not be submitted for audit purposes. In the absence of these documents, I was unable to confirm the valuation and existence of these items purchased.
- c) Immovable properties of R217 862 853 (2010: R10 578 405), which conform to the definition and recognition criteria of property, plant and equipment as stated in paragraphs 10 and 11 of the SA Standard of GRAP, GRAP 17, *Property, plant and equipment* and which were identified as municipal property on the valuation roll, were not included in the fixed asset register. Furthermore, differences of R82 053 594 were identified between the values of land in the register and the values of land on the valuation roll. In the absence of an updated property valuation roll for the municipality, I was unable to determine the extent of the misstatement in the disclosed property, plant and equipment balance.
- d) Contrary to paragraph 61 of the SA Standard of GRAP 17, *Property, plant and equipment* proof could not be obtained that the residual values and the useful lives of assets had been reviewed as at reporting date and, if expectations differed from previous estimates, whether the changes were accounted for as a change in an accounting estimate in accordance with the SA Standard of GRAP 3, *Accounting policies, changes in accounting estimates and errors*.
- e) Paragraph 19 of the SA Standard of GRAP, GRAP 26, *Impairment of cash-generating assets* requires that property, plant and equipment be assessed for impairment at each reporting date. Contrary to this requirement, management did not assess whether there were impairment indications on property, plant and equipment during the financial year under review. Consequently, I could not obtain adequate audit assurance as to the valuation of the municipality's property, plant and equipment.
- f) Paragraph 53 of the SA Standard of GRAP 17, *Property, plant and equipment* requires each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item to be depreciated separately. The municipality has not complied with these requirements. Consequently, I could not obtain sufficient audit evidence to confirm the valuation of property, plant and equipment and the accuracy of depreciation charges as disclosed in note 8 to the financial statements.
- g) Capital projects of R55 724 682, which were completed during the year under review, were not transferred from capital work in progress to infrastructure, resulting in an overstatement in work in progress and an understatement in infrastructure, as well as an understatement in the disclosed depreciation and accumulated depreciation balances.

Consumer debtors

- 5. The municipality was unable to provide me with sufficient appropriate audit evidence regarding non-current consumer debtors of R19 879 219 (2010: R6 413 795) as disclosed in note 9 to the financial statements. Furthermore, a difference R13 857 905 between the disclosed corresponding balance and the relevant financial report could not be explained. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all non-current debtors were properly accounted for. Consequently, I was unable to verify that these debtors did exist at year-end, that they were accounted for at the correct value in the financial statements of the municipality, that the balance outstanding is payable to the municipality and that the disclosed balance includes all the municipality's non-current receivables.

6. Due to severe shortcomings noted within the municipality's system regarding the completion, verification, approval and filing of indigent applications, I could not verify the status of several consumer debtors as being indigent and there were also no satisfactory alternative audit procedures I could perform to confirm the status of these debtors as indigent. Consequently, I have assessed the possible understatement in service charges and property rates income and consumer debtors at R66 351 380 (2010: R69 238 818) due to the incorrect classification of these consumer debtors as indigent.
7. I could not obtain sufficient and appropriate audit evidence that the municipality had assessed the recoverability (impairment) of its consumer and other debtors in terms of the requirements of the South African Statement of Generally Accepted Accounting Practice, IAS 39 *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, nor the accuracy of the provision of doubtful debts of R1 058 152 505 (2010: R689 626 065) and on the impairment loss of R372 188 325 (2010: R208 760 412).
8. In the absence of payments made after year-end as well as service contracts and indigent applications, I could not verify the existence of consumer debtors of R389 826 102 (2010: R13 857 408) as disclosed in note 6 (cross balances) to the financial statements.
9. The municipality did not remunerate its political office bearers and members of its political structures within the framework of the Public Office Bearers Act, 1998 (Act No. 20 of 1998) due to difference of opinion of the grading of the municipality. In terms of section 167(2) of the MFMA, the municipality must recover these overpayments. The total amount overpaid for the past five years amounts to R13 182 448. This amount has not been accounted for as a receivable for the year, resulting in trade and other receivables as disclosed in note 5 being understated by R13 182 448, employee cost overstated by R3 230 992 and accumulated surplus understated by R9 951 456.

Trade and other payables

10. Contrary to the SA Standard of GRAP, GRAP 1, *Presentation of financial statements*, the municipality did not account for retention monies. Based on my calculations, I have assessed the understatement in the disclosed trade and other payables as well as property, plant and equipment balance (work-in-progress) at R39 093 820 (2010: R16 760 159). Due to sufficient supporting documentation not being available, I was unable to assess the impact of the above on government grant income and unspent conditional grants.
11. Contrary to the accrual basis of accounted, as outlined and prescribed in GRAP 1, the municipality did not provide for accruals of R11 333 564. Trade and other payables are therefore understated by R11 333 564, as well as VAT receivable by R1 391 841 and property, plant and equipment (work-in-progress) by R9 941 723.

Unspent conditional grants and receipts

12. Based on confirmations received from National Treasury, the amount that the municipality may retain with regard to MIG projects is R13 264 622 (2010: R40 616 561) less the amount disclosed in the financial statements, indicating an overstatement of unspent conditional grants and receipts and understatement of trade and other payables.

Expenditure

13. In the absence of an updated fixed asset register, and due to the matters mentioned in paragraph 4, I was unable to verify the occurrence, accuracy, classification and completeness of depreciation and amortisation charges of R36 081 641 (2010: R28 890 271) as disclosed in note 29 to the financial statements.

Personnel expenditure

14. Sufficient appropriate audit evidence could not be obtained regarding the occurrence and accuracy of overtime payments of R41 254 810 made during the year under review. In the absence of approved attendance registers as well as a lack of prior approval for overtime worked, there were no reasonable alternative procedures which I could have performed to verify the occurrence and accuracy of these payments.

Service charges revenue

15. Contrary to the SA Standard of GRAP, GRAP 1, *Presentation of financial statements*, the municipality did not correctly apply the accrual basis of accounting. Service charges income is understated by R13 562 014 and opening balance of accumulated surplus overstated due to prior period corrections made against the current year's income instead of against the accumulated surplus' opening balance.
16. The municipality's process followed to estimate consumption was found to be inaccurate and it was noted that the municipality has not implemented controls to account for the estimated consumption at year-end. We have assessed the possible understatement of service income and consumer debtors at R14 232 141.
17. Meter reading books, to substantiate meter readings taken for a sample of service charges transactions could not be submitted for audit purposes. The total service charges income for which the occurrence and accuracy could not be confirmed amounted to R254 983 918.

Property rates revenue

18. Selected properties identified from the municipality's valuation roll could not be traced to the financial system. It could consequently not be confirmed that property rates were charged on these properties. I have calculated the possible understatement in property rates revenue as R31 361 434 for the year under review.

Irregular expenditure

19. Due to the limitations placed on my audit of expenditure and procurement management at the municipality, I was unable to confirm the completeness of the disclosure made in note 47 to the financial statements. Sufficient appropriate audit evidence could not be obtained that contracts and quotations to the value of R80 103 962 were procured in accordance with legislative requirements and the Supply Chain Management (SCM) policy. Furthermore, several instances where the municipality has not complied with their SCM policy and SCM Regulations were not disclosed in the note to the financial statements, relating to expenditure of R77 900 399.

Government grants and subsidies income

20. Differences of R37 254 000 (2010: R40 690 000) between the amounts accounted for as government grants and subsidies income accounted for by the municipality and the schedules to DoRA could not be adequately explained, indicating a possible understatement of the unspent conditional grants and receipts as well as a possible understatement in trade and other receivables and work-in-progress.
21. Paragraph 43 of the South African Standards of Generally Accepted Municipal Accounting Practice, GAMAP 9, *Revenue* states that government grants are recognised as revenue to the extent that there has been compliance with any restriction associated with the grant. Agreements entered into between the municipality and provincial government departments for payments of R16 172 772 (2010: R46 441 454) could, however, not be submitted for audit purposes. In the absence of these agreements, I was unable to verify that government grant and subsidy income of R16 172 772 (2010: R46 441 454), as included in note 23, complied with the recognition requirements as outlined in GAMAP 9 and I could consequently not determine the impact of this on the unspent conditional grants and receipts liability.
22. Contrary to the accrual basis of accounted, as outlined and prescribed in GRAP 1, the municipality did account for transactions of R7 640 610 in the incorrect financial year, resulting in an overstatement of government grant and subsidies income and overstatement of opening balance for accumulated surplus.

Unauthorised expenditure

23. In terms of chapter 1 of the MFMA, unauthorised expenditure is defined as expenditure incurred by a municipality otherwise than in accordance with section 15 of the act and includes spending of an allocation otherwise than in accordance with any conditions of the allocation. Based on the limitations placed on my audit of government grants and subsidies income (refer paragraph 21) as well as the fact that the municipality did not record retention money (refer paragraph 10), I am unable to conclude on the completeness of the unauthorised expenditure balance of R619 645 905 (2010: R216 155 588) as disclosed in note 45 to the financial statements, as required by section 125(2)(d) of the MFMA.

Commitments

24. The municipality was unable to provide me with sufficient appropriate audit evidence regarding commitments of R540 748 515 (2010: R524 543 031) as disclosed in note 39 to the financial statements. In the absence of contracts entered into between the municipality and third parties, payment vouchers as well as explanations that could not be provided for variances identified between external confirmations and the balances recognised, I was unable to verify the completeness, accuracy and valuation of the disclosed balance as well as the municipality's obligation in this regard.

Finance lease obligation

25. The municipality was unable to provide me with lease agreements for lease payments of R10 383 120, as accounted for in the financial records of the municipality. In the absence of these agreements, I was unable to determine the classification of these payments and the municipality's obligations in this regard.

Employee benefits

26. The South African Statement of Generally Accepted Accounting Practice, IAS 19 *Employee benefits*, outlines the recognition and disclosure requirements pertaining to post-employee benefit plans. Contrary to these requirements, the municipality did not account for its post-employment benefit plans in its financial statements. In the absence of actuarial valuations, I was unable to gain adequate audit assurance as to the valuation of the liability at reporting date and could consequently not determine the effect on the other account balances and classes of transactions contained in the financial statements.

Inventory

27. Contrary to the requirements of the SA Standard of GRAP 12, *Inventories*, the municipality did not account for vacant residential sites as inventory in their financial statements. In the absence of a property register for the municipality, I was unable to quantify the extent of misstatement in the current year's as well as the corresponding disclosed inventory balance.

Investment properties

28. Contrary to the requirements of the SA Standard of GRAP 16, *Investment property*, the municipality did not separately account for investment properties in their financial statements. In the absence of a property register and updated property valuation rolls for the municipality, I was unable to quantify the extent of the misstatement in the financial statements.

Provisions

29. I could not obtain sufficient appropriate audit evidence regarding the provision for environmental rehabilitation of R27 290 314 (2010: R18 913 648) as disclosed in note 18 to the financial statements. In the absence of sufficient appropriate audit evidence, I was unable to confirm the valuation and completeness of this liability at year-end as well as the accuracy and completeness of the movement of R8 376 666, as included in general expenses.

Other statutory disclosure

30. Particulars of non-compliance with the MFMA were not disclosed in the notes to the annual financial statements, as required by section 125(2)(e) of the MFMA. As included in paragraph 52 to 89 of this report, several material deviations from the MFMA were identified during the audit; however, no particulars of any of these matters were disclosed in the notes to the annual financial statements.

Disclaimer of opinion

31. 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

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

Restatement of corresponding figures

33. As disclosed in note 41 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of correcting prior year audit findings during the current financial year in the financial statements of the Matjhabeng Local Municipality at, and for the year ended, 30 June 2010.

Going concern

34. As disclosed in note 44, the ability of the municipality to continue as a going concern is dependent on a number of factors, including the need to obtain funding on a continuous basis.

Material losses and impairments

35. As disclosed in note 48 to the financial statements, material losses to the amount of R72 313 622 (2010: R71 400 000) were incurred as a result of losses on water and electricity distribution.

Unauthorised, irregular and fruitless and wasteful expenditure

36. As disclosed in note 45 to the financial statements, the municipality incurred unauthorised expenditure of R619 645 905 (2010: R216 155 588) during the year under review due to inadequate budgetary control measures.
37. As disclosed in note 46 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R41 013 003 (2010: R14 171 466) during the year under review due to the municipality's inability to pay their creditors on time.
38. As disclosed in note 47 to the financial statements, the municipality incurred irregular expenditure of R98 540 805 (2010: R14 931 539) during the year under review due to inadequate procurement processes followed.

Additional matters

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

Material inconsistencies in other information included in the annual report

40. The draft annual report of the municipality for the year ended 30 June 2011 was not submitted for audit purposes. In the absence of this report, possible inconsistencies between the financial statements and other information published with the financial statements could not be identified.

Unaudited supplementary schedule

41. The supplementary information set out on page 84 does not form part of the financial statements and is presented as additional information. I have not audited this schedule and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

42. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages 66 to 68 and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

Presentation of information

43. The reported performance against predetermined objectives was deficient in respect of the following criteria:

- Performance against predetermined objectives was not reported using the National Treasury guidelines.

44. The following audit finding relate to the above criteria:

- Measures taken to improve performance were not provided in the performance report, as required in terms of section 46(1)(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA). In total, 100% of the reported targets where improvement is required were not explained.

Usefulness of information

45. The reported performance information was deficient in respect of the following criteria:

- Consistency: The reported objectives, indicators and targets are not consistent with the approved integrated development plan.
- Measurability: The targets are not specific and time bound.

46. The following audit findings relate to the above criteria:

Reported objectives, indicators and targets are not consistent when compared with the planned objectives, indicators and targets (Consistency)

47. The municipality has not reported throughout on its performance against the planned development objectives, indicators and targets as stated in the service delivery and budget implementation plan, as 25% of the planned development objectives in the service delivery and budget implementation plan were not reported on in the annual performance report and 24% of the reported targets in the annual performance report were not consistent with the planned targets.

Planned and reported targets are not specific and time bound (Measurability)

48. For the selected predetermined objectives, 24% (25 of 103) of the planned targets were not specific of which the nature and the required level of performance could not be clearly identified and 38% (39 of 103) of the planned targets were not time bound in specifying the time period or deadline for delivery.

Reliability of information

49. The reported performance information was deficient in respect of the following criteria:

- **Validity:** Has the actual reported performance occurred and does it pertain to the entity, i.e. can the reported performance information be traced back to the source data or documentation?
- **Accuracy:** Have amounts, numbers and other data relating to reported actual performance been recorded and reported appropriately?
- **Completeness:** Have all actual results and events that should have been recorded been included in the reported performance information?

50. The following audit finding relates to the above criteria:

The validity, accuracy and completeness of reported performance against targets could not be confirmed as inadequate supporting source information was provided (Reliability)

51. Sufficient appropriate audit evidence in relation to the directorate infrastructure could not be obtained. There were also no satisfactory audit procedures that I could perform to obtain the required assurance as to the validity, accuracy and completeness of the reported information.

Compliance with laws and regulations

Strategic planning and performance management

52. The accounting officer of the municipality did not submit the results of the assessment on the performance of the municipality during the first half of the financial year to the mayor of the municipality, the National Treasury and the provincial treasury, as required by section 72(1)(b) of the MFMA.

53. The municipality did not implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players as required by sections 38, 39, 40 and 41 of the MSA and Municipal Planning and Performance Management Regulations 7 and 8.

Budgets

54. The municipality incurred expenditure in excess of the limits of the amounts provided for in the votes in the approved budget, in contravention of section 15 of the MFMA.

55. The accounting officer did not always submit the monthly budget statements to the relevant provincial treasury, as required by section 71(1) of the MFMA.

Annual financial statements, performance and annual report

56. 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 were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a disclaimer audit opinion.

57. The accounting officer did not make public the council's oversight report on the 2009-10 annual report within seven days of its adoption, as required by section 129(3) of the MFMA.

58. The municipal council did not adopt an oversight report containing the council's comments on the annual report within two months from the date on which the 2009-10 annual report was tabled in the council as required by section 129(1) of the MFMA.
59. The annual performance report did not contain a comparison of the performance of the municipality and of each external service provider with development priorities, objectives and performance indicators set out in its integrated development plan, as required by section 46 of the MSA.

Audit committees

60. No audit committee was in place as required by section 166(1) of the MFMA.
61. The municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee as required by Municipal Planning and Performance Management Regulation 14.

Internal audit

62. The internal audit unit did not function as required by section 165(2) of the MFMA, in that:
 - internal audit did not prepare a risk-based audit plan and an internal audit programme for the financial year under review;
 - internal audit did not advise the accounting officer on matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management and loss control.
63. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required by section 45(1)(a) of the MSA and Municipal Planning and Performance Management Regulation 14.
64. The internal auditors of the municipality did not audit the performance measurements on a continuous basis and did not submit quarterly reports on their audits to the municipal manager as required by Municipal Planning and Performance Management Regulation 14.

Procurement and contract management

65. Awards were made to providers who are persons in service of other state institutions or whose directors/ principal shareholders are persons in service of other state institutions in contravention of the requirements of SCM regulations 44. Furthermore, the providers failed to declare that they were in the service of the state as required by SCM regulation 13(c).
66. The prospective providers list for procuring goods and services through quotations was not updated at least quarterly to include new suppliers that qualify for listing as per the requirements of SCM regulation 14(1)(a)(ii).
67. Awards were made to providers who are persons in service of the municipality and/or whose directors/principal shareholders are persons in service of the municipality, in contravention of SCM regulations 44. Furthermore proof could not be obtained that the providers had declared that they were in the service of the municipality, as required by SCM regulation 13(c).
68. Persons in service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, contrary to SCM regulation 46(2)(e) and the code of conduct for staff members issued in terms of the MSA.

69. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, contrary to SCM regulation 46(2)(e) and the code of conduct for staff members issued in terms of the MSA, and the providers failed to declare their relationship to persons employed by the municipality as per the requirements of Municipal SCM Regulation 13(c).
70. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by means of inviting competitive bids as per the requirements of SCM regulations 19(a) and 36(1).
71. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers, as per the requirements of SCM regulation 17(a) & (c).
72. Quotations were accepted from prospective providers who are not on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy, in contravention of SCM regulations 16(b) and 17(b).
73. Invitations for competitive bidding were not always advertised for a required minimum period of days as per the requirements of SCM regulations 22(1) & 22(2).
74. 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).
75. Bids were not always evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality as per the requirements of SCM regulation 28(2).
76. Awards were made to suppliers who had not submitted a declaration on their employment by the state or their relationship to a person employed by the state, as per the requirements of Municipal SCM Regulation 13(c).
77. The preference point system was not applied in all procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).

Human resource management and compensation

78. The municipal manager did not provide job descriptions for each post on the staff establishment, as required by section 66(1)(b) of the MSA.
79. Senior managers directly accountable to the municipal manager did not sign annual performance agreements for the year under review, as required by sections 57(1)(b) and 57(2)(a) of the MSA.

Expenditure management

80. 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.
81. The accounting officer did not take reasonable steps to prevent unauthorised, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
82. The municipality did not recover unauthorised, irregular or fruitless and wasteful expenditure from the liable person, as required by section 32(2) of the MFMA.
83. The accounting officer did not always report to the South African Police Service the cases of alleged theft and fraud, as required by section 32(6) of the MFMA.

Revenue management

84. Interest was not charged on all arrears accounts, as required by section 64(2)(g) of the MFMA.
85. A credit control and debt collection policy was not maintained, as required by section 96(b) of the MSA.
86. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which recognised revenue when it is earned, accounted for debtors and accounted for receipts of revenue, as required by section 64(2)(e) of the MFMA.

Asset management

87. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which accounts for the assets of the municipality, as required by section 63(2)(a) of the MFMA.
88. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of internal control for assets (including an asset register), as required by section 63(2)(c) of the MFMA.
89. The municipality disposed of a capital assets to an organ outside of state without council's consideration and approval, contrary to section 14(2)(a) of the MFMA and Municipal Asset Transfer Regulation 5.

INTERNAL CONTROL

90. In accordance with the PAA and in terms of *General Notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below 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

91. For the year under assessment, it was noted that effective management leadership was not always provided at the municipality. Furthermore, the accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls. An action plan was developed to address internal control deficiencies; however, this plan was not implemented and monitored on a continuous basis. The high turnover of senior management personnel of this municipality over the past few financial years negatively impacted on the internal control environment.

Financial and performance management

92. Management and staff did not fulfil all their duties and responsibilities pertaining to financial and performance management. Proper controls over daily and monthly processing and reconciling of transactions were not evident in all instances. Systems were not appropriate to facilitate the preparation of the financial statements and performance reports.

Governance

93. The municipality did not identify risks relating to the achievement of financial and performance reporting objectives. An audit committee was not functioning during the year under review. Ongoing monitoring and supervision were not undertaken to enable an assessment of the effectiveness of internal control over financial and performance reporting.

OTHER REPORTS

Investigations

94. An independent consulting firm was appointed by the municipality to conduct an investigation into various aspects at the municipality. At the time of completing my audit, a final report was not yet available.

Auditor-General
Bloemfontein

30 November 2011



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence