

# 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 financial statements of the Matjhabeng Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2013, the statements of financial performance, changes in net assets and cash flows for the year then ended, the statement of comparison of budget and actual amounts, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with 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, 2012 (Act No. 5 of 2012) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### Basis for disclaimer of opinion

#### Property, plant and equipment

4. I was unable to obtain sufficient appropriate audit evidence regarding property, plant and equipment of R5 611 204 496 (2012: R5 675 460 745), as disclosed in note 9 to the financial statements, as the municipality did not provide me with sufficient evidence to support the values of assets recorded in the asset register and evidence that all assets were accounted for as outlined in the requirements of SA Standards of GRAP, GRAP 17, *Property, plant and equipment* and GRAP 26, *Impairment of cash-generating assets*. I have not determined the correct net carrying amount of property, plant and equipment or the accuracy of depreciation as it was impracticable to do so due to inadequate descriptions and locations recorded in the asset register to facilitate physical verification of the condition and existence of the assets. In addition, assets were identified that were not included in the asset register. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustments relating to property, plant and equipment were necessary.

#### Trade and other payables

5. The municipality did not recognise all outstanding amounts and retention monies meeting the definition of a liability in accordance with SA Standards of GRAP, GRAP 1, *Presentation of financial statements*, as it did not maintain adequate records of outstanding payments for goods and services received but not yet paid for at year-end.

I was not able to determine the full extent of the misstatement in trade and other payables as it was impractical to do so. In addition, I was unable to obtain sufficient appropriate audit evidence regarding trade payables and accrued leave pay as the municipality did not provide me with accurate reconciliations and supporting documents for journals. I was unable to confirm trade and other payables by alternative means. Consequently, I was unable to determine whether any adjustments relating to trade and other payables stated at R1 069 984 795 (2012: R912 832 591) as disclosed in note 13 to the financial statements were necessary.

### **Service charges**

6. I was unable to obtain sufficient appropriate audit evidence for service income of R782 911 047 (2012: R735 231 694) as disclosed in note 22 to the financial statements, as the municipality did not provide me with meter photos and documents to support journals. Furthermore, the municipality did not always use approved tariffs when billing for services and in some instances did not bill consumers for all the services rendered. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustments relating to service charges were necessary.

### **Government grants and subsidies**

7. I was unable to obtain sufficient appropriate audit evidence for the revenue from grants income amounting to R603 407 632 (2012: R570 189 011), as disclosed in note 22 to the financial statements, as the municipality did not provide me with sufficient evidence that the conditions of the grant had been met as required by SA Standards of GRAP, GRAP 23, *Revenue from non-exchange transactions*. Furthermore, several grants received were not disclosed by the municipality. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether adjustments to the amount of the unspent grant disclosed were necessary.

### **Consumer receivables from exchange transactions**

8. I was unable to obtain sufficient appropriate audit evidence for consumer receivables from exchange transactions amounting to R118 851 417 (2012: R110 630 155), as disclosed in note 7 to financial statement, as the municipality did not provide me with indigent applications, proof of subsequent payments by debtors and supporting documentation for journal entries. In addition, the municipality did not correctly account for VAT. Furthermore, the municipality did not appropriately assess its consumer debtors from exchange transactions for impairment, as required by SA Standard of GRAP, GRAP 104 *Financial instruments*. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustments relating to the amount disclosed were necessary.

### **Consumer receivables from non-exchange transactions**

9. I was unable to obtain sufficient appropriate audit evidence for consumer receivables from non-exchange transactions amounting to R29 434 970 (2012: R43 878 679), as disclosed in note 6 to the financial statements, as the municipality did not provide me with indigent applications, proof of subsequent payments by debtors and supporting documentation for journal entries. In addition, the municipality did not correctly account for VAT. Furthermore, the municipality did not appropriately assess its consumer debtors from non-exchange transactions for impairment, as required by SA Standard of GRAP, GRAP 104 *Financial instruments*. I was unable to confirm the amount by

alternative means. Consequently, I was unable to determine whether any adjustments relating to the amount disclosed were necessary.

#### **Investment property**

10. I was unable to obtain sufficient appropriate audit evidence for investment property of R377 914 769 (2012: R400 806 550), as disclosed in note 47 to the financial statements, as the municipality did not provide me with sufficient evidence to substantiate the values recorded in the asset register and evidence that all the assets were accounted for as outlined in the requirements of SA Standards of GRAP, GRAP 16, *Investment property* and GRAP 26, *Impairment of cash-generating assets*. I have not determined the correct net carrying amount of investment property or the accuracy of depreciation as it was impracticable to do so due to inadequate descriptions and locations recorded in the asset register to facilitate physical verification of the condition and existence of the assets. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustments to investment property were necessary.

#### **Inventory**

11. I was unable to obtain sufficient appropriate audit evidence regarding inventory of R709 170 198 (2012: R 709 191 196), as disclosed in note 3 to the financial statements, as the municipality did not provide me with all inventory count sheets, stock cards and supporting documents for journals. In addition, vacant residential stands were identified that were not included in the inventory as required by SA Standards of GRAP, GRAP 12, *Inventory*. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustments relating to inventory were necessary.

#### **Property rates**

12. I was unable to obtain sufficient appropriate audit evidence for property rates income of R176 827 344 (2012: R152 938 125) as disclosed in note 21 to the financial statements, as the municipality did not update the valuation roll with changes in market values of properties. Furthermore, various consumers were not charged property rates and in some instances the municipality used incorrect rates when billing the consumers. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustments relating to revenue from property rates were necessary.

#### **Employee-related expenditure**

13. I was unable to obtain sufficient appropriate audit evidence for allowances and overtime payments amounting to R54 016 497 (2012: R103 060 662), as disclosed in note 26 to the financial statements, as the municipality did not provide me with authorisation for allowances paid and pre-approval for overtime worked. I was unable to confirm the expenditure by alternative means. Consequently, I was unable to determine whether any adjustments to the amount disclosed were necessary.

#### **Expenditure**

14. I was unable to obtain sufficient appropriate audit evidence for general expenditure of R17 276 972 (2012: R39 356 034), as disclosed in note 33 to the financial statements, as the municipality did not provide me with invoices and supporting documents for journals. I was unable to confirm the expenditure by alternative means. Consequently,

I was unable to determine whether any adjustments relating to general expenditure stated were necessary.

### **Irregular expenditure**

15. The municipality did not disclose all irregular expenditure in the notes to the financial statements, as required by section 125(2)(d)(i) of the MFMA. The municipality incurred expenditure in contravention of supply chain management (SCM) requirements, resulting in irregular expenditure being understated by R94 425 245. In addition, I was unable to obtain sufficient appropriate audit evidence that procurement requirements were adhered to for all relevant awards, as the municipality did not provide me with the tender documents. This was due to the unavailability of the supplier's invoices. I was unable to confirm irregular expenditure by alternative means. Consequently, I was unable to determine whether any adjustments to irregular expenditure, stated at R399 533 588 as disclosed in note 44 to the financial statements, were necessary.

### **Depreciation and impairment**

16. I was unable to obtain sufficient appropriate audit evidence regarding depreciation and amortisation due to the limitation placed on my audit of property, plant and equipment. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to depreciation and amortisation, stated at R235 404 855 (2012: R233 401 798) in note 28 to the financial statements, were necessary.

### **Commitments**

17. I was unable to obtain sufficient appropriate audit evidence regarding commitments due to an inadequate contract management system, an incomplete contract register and contract of R72 444 327 that could not be submitted, as well as differences between my calculations and amounts disclosed in the financial statements. In addition, contracts were identified that were not disclosed as commitments in the financial statements. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to commitments, stated at R434 830 409 in note 37 to the financial statements, were necessary.

### **Revenue from rental of facilities and equipment**

18. I was unable to obtain sufficient appropriate audit evidence for revenue generated from rental of facilities and equipment of R11 234 090 (2012: R10 492 364) as disclosed in note 35 to the financial statements, as the municipality did not provide me with receipts and contract agreements supporting rental income that was earned. I was unable to confirm the revenue from rental facilities and equipment by alternative means. Consequently, I was unable to determine whether any adjustments to this amount were necessary.

### **Leases**

19. The municipality did not classify lease agreements as finance leases where substantially all the risks and rewards incidental to ownership were transferred to the entity in accordance with SA Standards of GRAP, GRAP 13, *Leases* as the municipality not have the lease register for all assets leased. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustments relating to finance lease obligation, stated at R210 125 (2012: R7 073

267) as disclosed in note 12 to the financial statements, were necessary, as it was impractical to do so.

#### **Non-current consumer debtors**

20. I was unable to obtain sufficient audit evidence for non-current consumer debt with a net balance of R3 832 050 (2012: R1 707 127), as disclosed in note 10 to the financial statements, as the municipality did not provide me with signed contracts for debtors who renegotiated payment terms. Furthermore, the municipality did not appropriately assess its consumer debt from exchange transactions for impairment, as required by SA Standard of GRAP, GRAP 104, *financial instruments*. I was unable to confirm the balance of non-current consumer receivables from exchange transaction by alternative means. Consequently, I was unable to determine whether any adjustments relating to consumer receivables from exchange transactions were necessary.

#### **Other financial assets**

21. I was unable to obtain sufficient appropriate audit evidence for other financial assets of R33 265 412 (2012: R38 789 418) as disclosed in note 4 to the financial statements, as the municipality did not provide me with bank confirmations and bank statements. Furthermore, the amount disclosed in the financial statements did not agree with the general ledger. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amounts disclosed for other financial asset.

#### **Accumulated surplus**

22. I was unable to obtain sufficient appropriate audit evidence regarding accumulated surplus of R5 392 563 345 disclosed in the financial statements due to the limitation placed on my audit by various components of the financial statements. I was unable to confirm accumulated surplus by alternative means. Consequently, I was unable to determine whether any adjustments relating to accumulated surplus in the financial statements were necessary.

#### **Cash flow statement**

23. I was unable to obtain sufficient appropriate audit evidence regarding the cash flow statement due to the limitation placed on my audit by various components of the financial statements as well as differences between my calculations and amounts disclosed in the cash flow statement. I was unable to confirm the cash flow statement by alternative means. Consequently, I was unable to determine whether any adjustments relating to the cash flow statement in the financial statements 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.

### **Restatement of corresponding figures**

26. As disclosed in note 39 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered during 2013 in the annual financial statements of the municipality at, and for the year ended, 30 June 2012.

### **Material loss**

27. As disclosed in note 45 to the financial statements, material losses to the amount of R164 361 680 (2012: R34 510 277) were incurred as a result of distribution losses incurred during the financial year.

### **Impairments**

28. As disclosed in note 29 to the financial statements, impairment losses to the amount of R346 176 905 (2012: R335 465 176) were incurred as a result of the write-off of irrecoverable trade debtors.

### **Going concern**

29. Note 41 to the financial statements indicates that Matjhabeng Local Municipality incurred a net deficit of R398 260 168 (2012: R363 329 298) during the year ended 30 June 2013. This, along with the other matters as set forth in note 40, indicates the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

### **Unauthorised Expenditure**

30. As disclosed in note 42 to the financial statements, unauthorised expenditure to the amount of R830 094 352 (2012: R1 075 758 597) was incurred as a result of the municipality's failure to implement budgetary controls.

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

31. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

#### **Predetermined objectives**

32. I performed procedures to obtain evidence about the usefulness and reliability of the information in the service delivery performance report as set out on pages xx to xx of the annual report.
33. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury's *Framework for managing programme performance information* (FMPPPI).
34. The reliability of the information in respect of the selected development objectives is

assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

35. The material findings are as follows:

#### **Usefulness of annual performance report**

##### **Presentation**

36. Section 46 of the Municipal Systems Act (MSA) requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Measures to improve performance for a total of 100% of the planned targets not achieved were not reflected in the annual performance report. This was due to inadequate internal policies and procedures over the processes pertaining to the reporting of performance information.

##### **Consistency**

37. The MSA, section 41(c) requires that the annual performance service delivery agreement should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. In total 100% of reported objectives, indicators and targets reported are not consistent with objectives, indicators and targets as per approved integrated development plan. This was due to a lack of the alignment between the SDBIP and the integrated development plan (IDP) resulting from inappropriate planning and lack of skills in performance management.

##### **Measurability**

38. The National Treasury's FMPPI requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 100% of the targets in relation to infrastructure development objective were not specific in clearly identifying the nature and the required level of performance. This was due to the capital projects not specified and reported in the SDBIP.

39. The National Treasury's FMPPI requires that performance targets be measurable. The required performance could not be measured for a total of 100% of the planned targets relation to infrastructure development objective. This was due to the capital projects not specified and reported in the SDBIP.

40. The National Treasury's FMPPI requires that the time period or deadline for delivery be specified. A total of 100% of the targets in relation to infrastructure development objective were not time bound in specifying a time period or deadline for delivery. This was due to a lack of the alignment between the SDBIP and the IDP resulting from inappropriate planning and lack of skills in performance management.

41. The National Treasury's FMPPI requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 96% of the indicators in relation to infrastructure development objective were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the capital projects not specified and reported in the SDBIP.

42. The National Treasury's FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. A total of 96% of the indicators in relation to Infrastructure development objective were not verifiable in that valid

processes and systems that produce the information on actual performance did not exist. This was due to the capital projects not specified and reported in the SDBIP.

### **Reliability of information**

43. The National Treasury's FMPPF requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to infrastructure development objective

This was due to limitations placed on the scope of my work because the municipality could not provide sufficient appropriate evidence in support of the information presented with respect to the basic service delivery and infrastructure development objective.

### **Compliance with laws and regulations**

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

### **Strategic planning and performance management**

45. The IDP adopted by the municipality does not reflect and identify some key performance indicators and targets, as required by sections 26 and 41 of the MSA.
46. For some objectives the municipality did not set key performance indicators, including input indicators, output indicators and outcome indicators, in respect of each of the development priorities and objectives set out in the IDP, as required by section 41(1)(a) of the MSA and MPPMRs 1 and 9(1)(a).
47. The municipality did not set measurable performance targets for the financial year with regard to some of the development priorities and objectives and key performance indicators set out in the IDP, as required by section 41(1)(b) of the MSA and the MPPMR 12(1) and 12(2)(e).
48. A performance audit committee was not in place and the audit committee was not used to fulfil the performance audit committee function, as required by MPPMR 14(2)(a).
49. The annual performance report for the year under review does not include measures taken to improve performance, as required by section 46(1)(a) and (c) of the MSA.
50. The municipality did not have and maintain effective, efficient and transparent systems of financial and risk management and internal controls as required by section 62(1)(c)(i) of the MFMA .



## **Budget**

51. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

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

52. 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 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.
53. Financial statements were not submitted for auditing within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.

## **Audit committee**

54. The audit committee did not advise the council and accounting officer on matters relating to risk management, effective governance, performance management and performance evaluation as required by section 166(2)(a) of the MFMA.
55. The audit committee did not advise the council and accounting officer on matters relating to compliance with legislation, as required by section 166(2)(a)(vii) of the MFMA.
56. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.
57. The audit committee did not discuss or review any performance matters, as required by MPPMR 14(3)(a).
58. The audit committee did not review the municipality's performance management system and make recommendations to the council, as required by MPPMR 14(4)(a)(ii).
59. The audit committee did not review all the quarterly internal audit reports on performance measurement, as required by MPPMR 14(4)(a)(i).
60. The audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by MPPMR 14(4)(a)(iii).

## **Internal audit**

61. The internal audit unit did not function as required by section 165(2) of the MFMA, in that:
  - it did not prepare a risk-based audit plan and an internal audit programme for the financial year under review.
  - it did not advise the accounting officer and report to the audit committee on matters relating to risk and risk management and loss control.

62. The internal audit unit did not advise the accounting officer and/or report to the audit committee on matters relating to compliance with the MFMA, DoRA and other applicable legislation, as required by section 165(2)(b)(vii) of the MFMA.
63. The internal audit did not audit the results of performance measurements, as required by section 45(1)(a) of the MSA and MPPMR 14(1)(a).
64. The internal audit unit did not assess the functionality of the performance management system, as required by MPPMR 14(1)(b)(i).
65. The internal audit unit did not assess the extent to which the performance measurements were reliable in measuring the performance of the municipality on key and general performance indicators, as required by MPPMR 14(1)(b)(iii).
66. The internal audit unit did not audit the performance measurements on a continuous basis and submit quarterly reports on their audits to the municipal manager and the performance audit committee, as required by MPPMR 14(1)(c).

#### **Procurement and contract management**

67. Some goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, as required by SCM regulation 17(a) and (c).
68. Some quotations were accepted from prospective providers who are not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy, in contravention of SCM regulations 16(b) and 17(b).
69. Sufficient appropriate audit evidence could not be obtained that some goods and services of a transaction value above R500 000 were procured by inviting competitive bids and that deviations were approved by the accounting officer only if it was impractical to invite competitive bids, as required by SCM regulations 19(a) and 36(1).
70. Sufficient appropriate audit evidence could not be obtained that some contracts were awarded to and quotations were accepted from bidders based on points given for criteria that were stipulated in the original invitation for bidding and quotations, as required by SCM regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.
71. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in some 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).
72. Sufficient appropriate audit evidence could not be obtained that some contracts were awarded to and quotations were accepted from suppliers based on preference points that were allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
73. Sufficient appropriate audit evidence could not be obtained that some contracts were awarded to and quotations were accepted from bidders that scored the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act.

74. Sufficient appropriate audit evidence could not be obtained that some contracts and quotations were only awarded to and accepted from providers whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.
75. Some contracts and quotations were awarded to and accepted from bidders who had not submitted or incorrectly submitted 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).
76. Some awards were made to providers who are in the service of the municipality, in contravention of section 112(j) of the MFMA and SCM regulation 44. Furthermore, the provider failed to declare that he/she was in the service of the municipality, as required by SCM regulation 13(c).
77. Some awards were made to providers who are in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulation 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).

#### **Human resource management**

78. Appointments were made in posts which were not provided for in the approved staff establishment of the municipality, in contravention of section 66(3) of MSA.
79. Some finance officials at middle management did not have the higher education qualification as required by regulations 8 and 9 of the Municipal Regulations on Minimum Competency Levels.
80. Some finance officials at middle management did not meet any of the prescribed competency areas as required by regulations 8 and 9 of the Municipal Regulations on Minimum Competency Levels.

#### **Expenditure management**

81. 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.
82. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
83. Sufficient appropriate audit evidence could not be obtained that payments were approved by the accounting officer or a properly authorised official as required by section 11(1) of the MFMA.

#### **Conditional grants received**

84. The allocation for the Urban Settlements Development Grant was utilised for purposes other than those stipulated in the grant framework, in contravention of section 16(1) of DoRA.

85. The allocation for the Municipal Infrastructure Grant was utilised for purposes other than those stipulated in the grant framework, in contravention of section 16(1) of DoRA.
86. The allocation for the Integrated National electrification Programme (Municipal) Grant was utilised for purposes other than those stipulated in the grant framework, in contravention of section 16(1) of DoRA.
87. Unspent conditional grant funds not committed to identifiable projects and not approved by the National Treasury for retention were not surrendered to the National Revenue Fund, as required by section 21(1) of DoRA.

#### **Revenue management**

88. An adequate management, accounting and information system which accounts for revenue was not in place, as required by section 64(2)(e) of the MFMA.
89. An effective system of internal control for debtors was not in place, as required by section 64(2)(f) of the MFMA.
90. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.
91. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

#### **Asset management**

92. 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.
93. An effective system of internal control for assets, including an asset register, was not in place, as required by section 63(2)(c) of the MFMA.

#### **Consequence management**

94. Unauthorised expenditure was not authorised through an adjustment budget, as required by section 32(2) of the MFMA.

#### **Internal control**

95. I considered internal control relevant to my audit of the financial statements, the service delivery performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for the disclaimer of opinion, the findings on the service delivery performance report and the findings on compliance with laws and regulations included in this report.

## **Leadership**

96. Although the municipality had oversight structures, efforts taken on some aspects of financial and performance reporting and compliance to laws and regulations were not in some instances effective. This resulted in the municipality not improving its audit outcomes.
97. Steps taken to address the weaknesses in finance and performance reporting directorates were not always timely and/or adequate.

## **Financial and performance management**

98. Financial discipline and supervision over daily and monthly control processes and reconciliations, as well as controls over the filing system, was not consistently maintained, which resulted in poor financial reporting and lack of supporting documents for the amounts reported in the financial statements.
99. Lack of systems and controls over the collection, collation and verification of performance information resulted in unreliable and unverifiable performance reporting.
100. Although the municipality had an action plan management did not always take adequate steps to ensure that corrective actions, as indicated in the action plan, were correctly executed on or before the due date. This resulted in repeat findings that caused the municipality not to improve its audit outcomes.
101. During the audit process several requests for information were issued to the municipality and they were not adequately responded to and there were limited consequences for the lack of response.
102. Capacity constraints at operational level not being addressed, especially in asset management which is operating at 30% capacity and finance directorate. Furthermore the chief financial officer position has been vacant for a number of years.

## **Governance**

103. The governance structures did not influence an improvement in the control environment of the local municipality, which is mainly attributable to the fact that the audit committee was not entirely functional in the financial year and the internal audit division did not plan and execute risk-based audits.

*Auditor-General*  
Bloemfontein

24 January 2014



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*