

# 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 2014, the statements of financial performance, changes in net assets, cash flows and comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

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

2. The accounting officer is responsible for the preparation and fair presentation of 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, 2013 (Act No. 2 of 2013) (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, as the municipality did not provide me with documentation to support the values of some assets and evidence that all assets were accounted for as outlined in the requirements of SA Standards of GRAP, GRAP 17, *Property, plant and equipment* (GRAP 17). In addition, completed capital projects could not be physically verified due to inadequate descriptions and locations recorded in the asset register. I was unable to confirm the property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustments relating to property, plant and equipment stated at R5 286 392 330 (2013: R5 319 068 056), in note 10 to the financial statements was necessary. In addition, I could not determine the correctness of the impairment assessment, residual and useful lives of all municipal assets in accordance with SA Standards of GRAP, GRAP 26, *Impairment of cash-generating assets* or the accuracy of depreciation in accordance with GRAP 17 due to inadequate descriptions and locations recorded in the asset register to facilitate physical verification of the condition of the assets, therefore I was unable to determine the net carrying amount of property, plant and equipment as it was impracticable to do so.

### **Service charges**

5. 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 determine the full extent of the misstatement of service charges and consumer receivables from exchange transactions as it was impracticable to do so. Additionally, there is a consequential impact on the net deficit for the year, the accumulated surplus and the allowance for impairment. Furthermore, I was unable to obtain sufficient appropriate audit evidence regarding service charges income, as the municipality did not provide me with meter-reading records to substantiate consumption charged to the consumers. I was unable to confirm the service charges and consumer receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustments relating to service charges stated at R854 689 371 (2013: R782 911 047) in note 27 and consumer receivables from exchange transactions stated at R453 373 537 (2013: R121 845 212) in note 7 to the financial statements were necessary.

### **Investment property**

6. I was unable to obtain sufficient appropriate audit evidence regarding investment property, as the municipality did not provide me with sufficient evidence to substantiate the values recorded in the asset register for investment property acquired after the 2006-07 financial year as the values were recorded using deemed cost instead of actual cost and evidence that all 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 incorrect methodology that was used in the calculation of deemed costs. I was unable to confirm investment property by alternative means. Consequently, I was unable to determine whether any adjustments relating to investment property stated at R450 788 086 (2013: R458 976 540) in note 9 to the financial statements were necessary.

### **Inventory**

7. The municipality did not account for its inventory in terms of the requirements outlined in SA Standards of GRAP, GRAP12, *Inventory*, as it did not value inventory items correctly, provision was not made for obsolete stock and vacant stands were not classified as inventory. I was unable to determine the full extent of the misstatement as it was impracticable to do so. In addition, I was unable to obtain sufficient appropriate audit evidence regarding inventory, as the municipality did not provide supporting documentation for journals on opening balances which have been restated in the current financial period and the municipality also did not keep record of inventory movement for consumables. I was unable to confirm inventory by alternative means. Consequently I was unable to determine whether any adjustments relating to inventory stated at R330 607 717 (2013: R327 118 945) in note 3 to the financial statements were necessary.

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

8. I was unable to obtain sufficient appropriate audit evidence for consumer receivables from exchange transactions, as the municipality did not provide me with supportable meter-reading records for usage charged to the accounts. Furthermore the consumers were charged with incorrect approved tariffs. I was unable to confirm the consumer receivables account balances by alternative means. Consequently, I was unable to

determine whether any adjustments relating to consumer receivables balance stated at R1 973 211 172 (2013: R1 580 946 116) in note 7 to financial statements were necessary. Furthermore, based on the above I was unable to determine whether any adjustments relating to the provision for impairment of consumer receivables were necessary as required by SA Standard of GRAP, GRAP 104, *Financial instruments*.

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

9. The municipality did not update the accounting system with valuation roll changes in market values of properties. Furthermore, the municipality charged accounts with tariffs which differ from the property usage codes according to the valuation roll, resulting in incorrect charges to the accounts of the consumers; accounts were identified that were not charged property rates and properties from the town plans could not be traced to the billing system for property rate charges. Consequently, receivables from non-exchange transactions are misstated and it was impractical to quantify the misstatement. In addition, I was unable to obtain sufficient audit evidence for gross receivables from non-exchange transactions since the accounting system was not updated for improvement listings resulting in unexplained differences on the valuation roll. I was unable to confirm the consumer receivables account balances by other alternative means. Consequently, I was unable to determine whether any adjustments relating to consumer receivables from non-exchange transactions amounting to R348 735 139 (2013: R297 958 639) in note 7 to the financial statements were necessary. Furthermore, based on the above I was unable to determine whether any adjustments relating to the provision for impairment of consumer receivables were necessary as required by SA Standard of GRAP, GRAP 104, *Financial instruments*.

### **Trade and other payables**

10. The municipality did not recognise all outstanding amounts meeting the definition of a liability in accordance with SA Standards of GRAP, GRAP 1, *Presentation of financial statements* (GRAP 1), as it did not maintain adequate records of goods and services received but not yet paid for at year-end. I was unable 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 and appropriate audit evidence regarding accrued leave pay as the municipality did not provide me with accurate leave records. 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 605 969 763 (2013: R1 070 554 811) in note 14 to the financial statements were necessary.

### **Value-added tax receivable**

11. I was unable to obtain sufficient appropriate audit evidence regarding value-added tax (VAT) receivables due to invoices and receipts not being provided to verify the input and output VAT. I was unable to confirm the VAT receivable by alternative means. Consequently, I was unable to determine whether any adjustments relating to VAT receivable stated at R18 342 751 in note 6 to the financial statements were necessary.

### **Depreciation and impairment**

12. I was unable to obtain sufficient appropriate audit evidence regarding depreciation and impairment due to the limitation placed on my audit of property, plant and equipment. I was unable to confirm depreciation and impairment by alternative means. Consequently, I was unable to determine whether any adjustments relating to depreciation and

impairment, stated at R275 509 250 (2013: R272 701 803) in note 30 to the financial statements were necessary.

### **Property rates**

13. The municipality did not update the accounting system with supplementary valuations and improvement listings and tariffs charged for property rates differed from the property usage codes as per the valuation roll. Consequently, property rates were overstated by R167 275 010. Additionally, there is a consequential impact on the net deficit for the year, the accumulated surplus and consumer receivables from non-exchange transactions. In addition, I was unable to obtain sufficient appropriate audit evidence regarding property rates as the valuation master file was not updated for improvement listings, some properties from the town plans could not be traced to the valuation roll and the billing system, and various consumer accounts were not charged for property rates. I was unable to confirm property rates by other alternative means. Consequently, I was unable to determine whether any further adjustments relating to property rates stated at R192 976 982 (2013: R176 827 344) in note 25 and consumer receivables from non-exchange transactions stated at R87 813 033 (2013: R29 434 970) in note 7 to the financial statements were necessary.

### **Government grants and subsidies**

14. During 2013, I was unable to obtain sufficient appropriate audit evidence regarding revenue from government grants and subsidies, as the municipality did not provide me with sufficient evidence that the conditions of the grants had been met as required by SA Standards of GRAP, GRAP 23, *Revenue from non-exchange transactions*, (GRAP 23). I was unable to confirm government grants and subsidies by alternative means. Consequently, I was unable to determine whether any adjustments relating to government grants and subsidies stated at R209 747 507 in note 23 to the financial statements and unspent conditional grants stated at R38 849 316 in note 17 to the financial statements were necessary. My opinion on the financial statements for the period ended 30 June 2013 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

### **General expenses**

15. The municipality did not recognise all goods and services received as expenditure in accordance with GRAP 1. Consequently, general expenses and trade and other payables are understated by R134 599 596 respectively. Additionally, there is a consequential impact on the net deficit for the year and the accumulated surplus. In addition, I was unable to obtain sufficient appropriate audit evidence regarding general expenses, as the municipality did not provide me with invoices. I was unable to confirm the general expenses by alternative means. Consequently, I was unable to determine whether any further adjustments relating to general expenses or the different classifications of general expenditure stated at R178 799 348 (2013: R136 141 288) in note 36 to the financial statements were necessary.

### **Rental of facilities**

16. I was unable to obtain sufficient appropriate audit evidence regarding revenue generated from rental of facilities, as the municipality could not provide me with rental application forms, contractual agreements or proper rental registers to substantiate the revenue recognised. I was unable to confirm the revenue from rental of facilities by alternative means. Consequently, I was unable to determine whether any adjustments relating to

rental of facilities stated at R10 303 659 (2013: R11 234 091) in note 26 to the financial statements were necessary.

### **Fines**

17. I was unable to obtain sufficient appropriate audit evidence that the municipality had properly charged and accounted for all revenue generated from traffic fines issued amounting as the municipality did have processes in place for the issuing and return of traffic books to ensure all fines are accounted for. I was not able to determine the correct amount of revenue from traffic fines by alternative means, as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to revenue relating to traffic fines amounting to R3 915 269 in note 21 of the financial statements were necessary.

### **Unauthorised expenditure**

18. I was unable to obtain sufficient appropriate audit evidence regarding the opening balance and consequently on the closing balance of unauthorised expenditure due to the lack of evidence to support the unauthorised expenditure transactions incurred during the years preceding the 2012-13 financial year. I was unable to confirm the unauthorised expenditure by alternative means. Consequently, I was unable to determine whether any adjustment relating to unauthorised expenditure stated at R3 696 128 927 (2013: R3 244 888 921) as disclosed in note 48 to the financial statements was necessary.

### **Irregular expenditure**

19. 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) in the prior which has not been recorded. I was not able to determine the correct amount of irregular expenditure incurred in the current year relating to prior years by alternative means, as it was impracticable to do so. I was unable to obtain sufficient appropriate audit evidence regarding the opening balance and consequently on the closing balance of irregular expenditure due to the lack of evidence to support the irregular expenditure transactions incurred during the years preceding the 2012-13 financial year. I was unable to confirm the irregular expenditure by alternative means. Consequently, I was unable to determine whether any adjustment relating to irregular expenditure amounting to R484 659 738 (2013: R399 533 588) in note 50 to the financial statements was necessary.

### **Fruitless and wasteful expenditure**

20. I was unable to obtain sufficient appropriate audit evidence regarding the opening balance and consequently on the closing balance of unauthorised expenditure due to the lack of evidence to support the unauthorised expenditure transactions incurred during the years preceding the 2012-13 financial year. I was unable to confirm the unauthorised expenditure by alternative means. Consequently, I was unable to determine whether any adjustment relating to unauthorised expenditure stated at R337 268 865 (2013: R233 871 316) in note 49 to the financial statements was necessary.

### **Commitment**

21. During 2013, I was unable to obtain sufficient appropriate audit evidence regarding capital commitments (*already contracted for but not provided and not yet contracted for and authorised by the accounting officer*) of R13 950 527 and R402 351 110

respectively, as disclosed in note 42 to the financial statements, as the municipality did not provide me with the supporting documentation and contracts for the commitments which have been authorised and contracted as listed in the register for capital commitments. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustments to commitments were necessary. My opinion on the financial statements for the period ended 30 June 2013 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

#### **Cash flow statement**

22. I was unable to obtain sufficient appropriate audit evidence regarding the cash flow statement due to the limitations placed on my audit of various components of the financial statements. 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**

23. 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**

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

#### **Restatement of corresponding figures**

25. As disclosed in note 40 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of errors discovered during 2014 in the financial statements of the Matjhabeng Local Municipality at, and for the year ended, 30 June 2013.

#### **Material losses**

26. As disclosed in note 52 to the financial statements, material losses to the amount of R199 106 217 (2013: R143 157 018) were incurred as a result of distribution losses incurred during year.

#### **Material Impairments**

27. As disclosed in note 32 to the financial statements, impairment losses to the amount of R38 941 330 (2013: R346 176 905) were incurred as a result of a write-off of irrecoverable trade debtors.

#### **Financial sustainability**

28. The financial statements indicates that Matjhabeng Local Municipality incurred a net deficit of R138 998 288 (2013: R362 656 499) as disclosed in the statement of financial performance during the year ended 30 June 2014. This condition, along with the other matters as set forth in note 46, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

## **Additional matters**

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

## **Unaudited supplementary schedules**

30. The supplementary explanations of budget variances contained in note 53 do not form part of the financial statements. I have not audited these explanations and, accordingly, I do not express an opinion thereon.

## **Unaudited disclosure notes**

31. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

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

32. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## **Predetermined objectives**

33. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priority presented in the annual performance report of the municipality for the year ended 30 June 2014:

- Development priority 8: Infrastructure, on pages x to x.

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

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

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

37. The material findings in respect of the selected development priority are as follows:

## **Development priority 8: Infrastructure**

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

38. Section 41(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan (IDP) to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. All (100%) of the reported objectives, indicators and targets were not consistent with those in the approved annual performance plan and service delivery agreement plan. This was due to the lack of the alignment between the IDP and the *Service delivery budget implementation plan* (SDBIP) resulting from inappropriate planning and lack of skills in performance management.

39. The FMPPI requires the following:

- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 84% of the targets were not specific.
- Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 39% of the indicators were not well defined.
- Performance indicators must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 29% of the indicators were not verifiable.

This was due to the lack of key controls in the relevant systems of collection, collation, verification, storage of actual performance.

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

40. The FMPPI requires municipalities to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information. This was due to limitations placed on the scope of my work due to the fact that the municipality could not provide sufficient appropriate evidence in support of the reported performance information.

### **Additional matter**

41. I draw attention to the following matter:

### **Achievement of planned targets**

42. Refer to the annual performance report on pages x to x and x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected development priority reported in paragraphs xx to xx of this report.

### **Compliance with legislation**

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



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

44. The adopted IDP did not reflect and identify the key performance indicators and targets, as required by sections 26 and 41 of the MSA.
45. Key performance indicators, including input, output and outcome indicators, in respect of each of the development priorities and objectives were not set in the IDP, as required by section 41(1)(a) of the MSA and regulations 1 and 9(1)(a) of the Municipal planning and performance management regulations (MPPMR).
46. Measurable performance targets for the financial year with regard to each of the development priorities and objectives and key performance indicators were not set in the IDP, as required by section 41(1)(b) of the MSA and regulation 12(1) and 12(2)(e) of the MPPMR.

### **Budgets**

47. 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**

48. 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 non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a disclaimer audit opinion.

### **Audit committee**

49. The audit committee did not advise the council on matters relating to internal financial control and internal audits, risk management, accounting policies, effective governance, performance management and performance evaluation, as required by section 166(2)(a) of the MFMA.
50. The audit committee did not advise the council on matters relating to compliance with legislation, as required by section 166(2)(a)(vii) of the MFMA.
51. The audit committee did not meet at least twice during the financial year, as required by regulation 14(3)(a) of the MPPMR.
52. The audit committee did not review the municipality's performance management system and make recommendations to the council, as required by regulation 14(4)(a)(ii) of the MPPMR.
53. The audit committee did not review the quarterly internal audit reports on performance measurement, as required by regulation 14(4)(a)(i) of the MPPMR.
54. 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 regulation 14(4)(a)(iii) of the MPPMR.

## **Internal audit**

55. The internal audit unit did not function as required by section 165(2) of the MFMA, in that it did not advise the accounting officer and report to the audit committee on matters relating to internal controls and loss control.
56. The internal audit unit did not advise the accounting officer and 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.

## **Procurement and contract management**

57. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
58. Contracts were extended without tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.
59. Contracts were extended or modified without the approval of a properly delegated official, as required by SCM regulation 5.
60. Contracts and quotations were awarded to bidders who had not submitted a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
61. Awards were made to providers who are in the service of the municipality and whose directors or principal shareholders 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). Similar non-compliance was reported in the prior year and the municipality did not take disciplinary action against the suppliers or officials involved.
62. Awards were made to providers who are in the service of other state institutions or whose directors or principal shareholders are in the service of other state institutions, in contravention of section 112(j) of the MFMA 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).
63. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM regulation 46(2)(e) and the code of conduct for staff members issued in terms of the MSA.
64. 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, as required by SCM regulation 46(2)(e) and the code of conduct for staff members issued in terms of the MSA.

### **Human resource management**

65. Sufficient appropriate audit evidence could not be obtained that job descriptions were established for all posts in which appointments were made in the current year, as required by section 66(1)(b) of the MSA.

### **Expenditure management**

66. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

67. Payments were made from the municipality's bank account without the approval of the accounting officer, the chief financial officer or a properly authorised official, as required by section 11(1) of the MFMA.

68. An effective system of expenditure control, including procedures for the approval, authorisation and payment of funds, was not in place, as required by section 65(2)(a) of the MFMA.

69. Reasonable steps were not taken to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

### **Conditional grants and transfers**

70. The Municipal Infrastructure Grant and Municipal Systems Improvement Grant allocations were not spent in accordance with the applicable grant framework, in contravention of section 16(1) of DoRA.

71. The municipality did not evaluate its performance in respect of programmes or functions funded by the Municipal Infrastructure Grant, the Municipal Systems Improvement Grant and the Local Government Financial Management Grant allocations, as required by section 12(5) of DoRA.

72. Municipal Infrastructure Grant, Municipal Systems Improvement Grant and Local Government Financial Management Grant funds were retained or rolled over to the next financial year without seeking the approval of the National Treasury, as required by section 21(1) of DoRA.

### **Revenue management**

73. An adequate management, accounting and information system which accounts for revenue, debtors, receipts of revenue was not adequately in place, as required by section 64(2)(e) of the MFMA.

74. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

75. Revenue due to the municipality was not always calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

76. Sufficient audit evidence could not be obtained that interest had been charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

#### **Asset management**

77. 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.

#### **Liability management**

78. An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.

79. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the MFMA.

#### **Consequence management**

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

81. Unauthorised, irregular and fruitless and wasteful expenditure was not always recovered from the liable person, as required by section 32(2) of the MFMA.

82. Authorisation of unauthorised expenditure was not done through an adjustment budget, as required by section 32(2)(a)(i) of the MFMA.

#### **Internal control**

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

#### **Leadership**

84. Although the municipality addressed capacity constraints in the finance division and approved the finance-related policies, these actions were not timeous enough to enable the municipality to improve its general control environment.

85. The municipality did not always take timeous corrective action to address weaknesses in the finance and performance reporting directorate as well as compliance with laws and regulations. This resulted in non-compliance with applicable legislation and gave rise to unauthorised, fruitless and wasteful and irregular expenditure.

86. The municipality did not entirely implement the recommendations from various external oversight reports that ought to improve the control environment and lead to an improvement in audit outcomes.

## Financial and performance management

87. Controls relating to the asset registers and underlying records were not maintained throughout the year which contributed in the late preparation and submission of the asset registers. This resulted in insufficient time for adequate review processes to be performed by the finance division on the accuracy and completeness of the infrastructure asset registers and the financial statements. In addition, inadequate communication between the different directorates and the finance division resulted in information in the asset registers relating to the physical location of the assets not being updated on a regular basis.
88. Inadequate communication between the different directorates resulted in incomplete and inaccurate financial and performance reporting relating to future contractual commitments and capital projects in progress. The finance division also did not perform adequate review functions to substantiate the completeness and accuracy of the commitments register.
89. The recommendations made by the internal audit division were not implemented. This resulted in the material misstatements in the financial statements and the report on predetermined objectives as well as non-compliance to legislation being reported again.

## Governance

90. The governance structures have not influenced an improvement in the control environment of the local municipality which is mainly attributable to the fact 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

30 November 2014



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*