



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

OF THE

AUDITOR-GENERAL

ON

AUDIT OUTCOMES OF THE FREE STATE

LOCAL GOVERNMENT – MUNICIPALITIES

FOR THE FINANCIAL YEAR 2007-08

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FOREWORD

It gives me great pleasure to present my 2007-08 general report to the provincial legislature and municipal councils summarising the results of the audit outcomes of the Free State Local Government for the financial year ended 30 June 2008.

The purpose of this general report is to provide an overview of the audit outcomes of local government as well as help guide those charged with governance and oversight, including the executive, councils and legislatures, to work towards achieving financially unqualified audit opinions. I will complement this report by my countrywide roadshows, in which I will present an overview of these audit outcomes and facilitate dialogue on the understanding of their root causes and possible solutions thereto.

The main body of this report covers an overview of the financial reporting results, an overview of performance reporting results and the issues driving audit conclusions, specifically qualified audit results. In addition, supplementary annexures are provided to enhance understanding of the state of affairs in the Free State Local Government.

We also make recommendations on how municipalities can improve their governance and financial control systems. This is done in an effort to continue to make audit reports more relevant to enable as wide a range of stakeholders as possible to use our reports and gain insight into the manner in which South Africa's public resources are accounted for.

The Premier, together with the Members of the Executive Council (MECs) for Local Government and Finance, has committed to coordinate, monitor and drive the action plans developed to address audit outcomes and municipal finance management issues in the province. In this regard my senior staff will monitor the impact of the initiatives undertaken through increased visibility throughout the year and report thereon. This report could therefore also serve as a good basis to enable handover where applicable and ensure continuous commitment to addressing pervasive and cross-cutting issues affecting municipalities.

The Free State Local Government comprises 25 municipalities: five high-capacity, ten medium-capacity and ten low-capacity municipalities. For the purpose of this report only 19 municipalities were analysed and included (as well as the comparative 2006-07 audit outcomes) while the following were not included due to the reasons indicated:

- Mafube Municipality – the financial statements were not received for audit at the legislative deadline due to the municipal manager and chief financial officer positions being vacant during the year under review. The newly appointed municipal manager and chief financial officer appointed consultants to draw up financial statements for 2007-08. The financial statements were submitted on 9 February 2009.
- Tokologo Municipality – the financial statements for 2006-07 were submitted for audit on 6 October 2008. This audit will be finalised by 15 April 2009. It is expected that the 2007-08 financial statements will be submitted for audit during April 2009. The main reasons for the delay were the poor quality of financial statements submitted, lack of management involvement during the audit and lack of capacity in the finance department of the municipality.



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- Phumelela Municipality – the financial statements for the 2007-08 and 2006-07 financial years were not received for audit purposes at the time of this report. The severity of deficiencies in the financial management system and controls at the municipality necessitated the Department of Local Government and Housing to place this municipality under administration. Consultants were appointed to redo the 2005-06 financial statements and update the financial records.
- Nala Municipality – financial statements were received on 28 November 2008 for audit purposes. The audit is expected to be finalised by 31 May 2009.
- Mohokare Municipality – financial statements were received on 23 October 2008 for audit purposes. A significant number of staff members within the finance section of Mohokare are on suspension due to the investigation which is still under way, which makes it very challenging to obtain the required information from the municipality. The audit is expected to be finalised by 15 April 2009.
- Letsemeng Municipality – the finalisation of the audit was delayed due to information not being available and the unavailability of the municipal manager and chief financial officer. The audit report will be finalised by 31 March 2009.

The Free State Local Government also has four municipal entities. For the purpose of this report only three of the four entities are analysed and included (as well as the comparative 2006-07 audit outcomes). The entity not included in this analysis is Krynauwvlust Farming Trust, where the financial statements were submitted late for audit purposes.

The attainment of financially unqualified audit reports by all government entities is a vision we fully subscribe to in our efforts to strengthen South Africa's democracy, thereby building public confidence. The critical message we want to highlight is that it is possible to obtain an unqualified audit report if the basics in internal control systems, specifically document control, are in place and constantly monitored by the leadership.

The current year's performance remains a concern with an overall 17 of the 19 municipalities (89%) being financially qualified. Fourteen municipalities (74%) received a disclaimer of audit opinion owing to record-keeping and historical issues relating to assets and inadequate internal control. Three municipalities (16%) were qualified and two municipalities (10%) were financially unqualified (with other matters). Fezile Dabi (low capacity) and Tswelopele (medium capacity) were financially unqualified (with other matters), mainly due to effective management involvement. Paragraph 1.2 of section 2 contains further detail.

It is of concern to note that this year, worse audit opinions were expressed at more municipalities in the Free State than in the prior year. Local government within the province is currently not moving in the required direction and the executive, accounting officers, Department of Local Government and Housing, Free State Provincial Treasury and South African Local Government Association (SALGA) need to consolidate initiatives to ensure an improvement in the financial processes and reporting at the municipalities. Focus should be placed on the availability of sufficient and appropriate audit evidence and the improvement in internal controls at the municipalities.

The municipalities received financial qualifications mainly on capital assets (100%), receivables (92%), payables and borrowings (92%), presentation and disclosure (85%), provisions, contingent liabilities and guarantees (77%) and grants, capital and reserves (69%). The majority of the audit qualifications were the result of deficiencies in internal control relating to the following:



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- **Control activities:** All the municipalities (100%) were qualified on internal controls relating to control activities, as written procedures, authorisations, record-keeping, management reviews and asset safeguards were not segregated to prevent fraudulent financial data and asset misappropriation. Furthermore, policies relating to reliable financial reporting had not been established and communicated throughout the municipalities, and did not have corresponding procedures that resulted in management directives being carried out.
- **Control environment:** Eleven municipalities (85%) were qualified on matters relating to the control environment owing to management and employees not being assigned appropriate levels of authority and responsibility to ensure that they understand how and for what they are accountable to facilitate effective internal control over financial reporting. Furthermore, the municipalities did not have individuals competent in financial reporting and related oversight roles.
- **Monitoring:** Ongoing monitoring and supervision were not undertaken to enable management to determine whether internal control over financial reporting was present and functioning at eight municipalities (62%).
- **Risk assessment:** Seven of the municipalities (54%) were qualified on matters relating to risk assessment, as they did not identify risks to achieving financial reporting objectives.
- **Information and communication:** Pertinent information was not identified, captured, used at all levels of the municipality and distributed in a form and time frame that supported the achievement of financial reporting objectives at five municipalities (38%).

It is vitally important that the senior management of the municipalities should ensure that internal controls have been developed, implemented and monitored and that the appropriate action is taken when controls are not adhered to.

Main challenges faced by municipalities in the province include the following:

- **Capacity (skills/vacancies/financial reporting skills):** A general lack of capacity and skills to fully comply with the prescribed accounting framework contributed to the high incidence of audit qualifications.
- **Governance:** It was found that 89% of audit committees and 84% of internal audit units did not substantially fulfil their responsibilities during the year.
- **Leadership involvement (leadership tone, supervision and monitoring):** Significant difficulties due to delays, the unavailability of supporting documentation and the unavailability of senior management were experienced during audits at 79% of municipalities analysed.
- **Prioritisation and addressing issues:** Corrective action on prior year external audit findings was not substantially addressed by 84% of municipalities analysed.

The major challenges in the province are the lack of an adequate human resource strategy, capacitating of the financial and internal audit units and the implementation and monitoring of proper management controls. The municipalities must engage with the National and Free State Provincial Treasuries, the Department



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of Local Government and Housing and SALGA and continue participating in training provided by these institutions.

In addition to the financial qualification, the majority of the municipalities had the following shortcomings:

- Non-compliance with applicable legislation (100%), related mainly to compliance with the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Municipal Systems Act (MSA).
- Governance (95%), related mainly to the effectiveness of audit committees and internal audit units. Certain recommendations arising from the 2006-07 external audits had not been addressed during the year under review.
- The implementation of generally recognised accounting practice (GRAP) resulted in eleven municipalities (74%) having to effect material corrections to their financial statements due to errors, omissions and inconsistencies identified by the auditors.

An assessment of readiness for GRAP was conducted by the auditors as part of the 2007-08 audit risk assessment included under the "matters of governance" table forming part of the audit report and management report. The aim of this assessment is to determine the readiness of the municipalities to be fully GRAP compliant in the near future. From the assessment, it was found that the majority of municipalities submitted their financial implementation plan, complied with the implementation plan and submitted progress reports to the National Treasury by the date required.

The assessment covered the following:

- Whether or not an implementation plan was submitted to the National and Free State Provincial Treasury before 31 October 2007, detailing progress towards full compliance with GRAP.
- Whether or not the implementation plan submitted to the National and Free State Provincial Treasury before 31 October 2007 was substantially complied with.
- Whether or not an implementation plan was submitted to the National and Free State Provincial Treasury before 31 March 2008, detailing further progress towards full compliance with GRAP.

Project Consolidate was initiated by the Department of Provincial and Local Government (DPLG) in July 2006 with the intention of deploying accountants and engineers in municipalities in order to alleviate the shortage of skills in these two areas. Nine of the 19 municipalities analysed were identified by the Department of Local Government and Housing under Project Consolidate. Refer to annexure 4 for the names of the identified municipalities. No dedicated funding was available within the department to assist these municipalities. Project Consolidate came to an end at the beginning of the 2007-08 year and future assistance will form part of the support and implementation plan of the Department of Local Government and Housing. Structured support was provided during 2007-08 mainly in the form of infrastructure support, where the Development Bank of South Africa deployed engineers and young professionals at municipalities. The Department of Local Government and Housing visited municipalities, despite Project Consolidate not being active during 2007-08, to assist with their financial systems and processes and in clearing prior year audit findings.



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Of the nine municipalities, seven municipalities included in Project Consolidate (78%) received a disclaimer, indicating that there had not been significant signs of improvement since the municipalities' participation in the project.

SALGA embarked on the following key initiatives during the 2007-08 financial year:

- Hands-on support was provided to all municipalities to improve on the outcomes of their audit reports.
- Workshops were arranged for each district on:
 - implementation of and compliance with the MFMA
 - GRAP/GAMAP (generally accepted municipal accounting practice) standards and increase in compliance in terms of financial management
 - proper financial management systems.
- Assisting municipalities to implement optimal collection of debts older than 120 days.

These interventions did not, however, address the challenges that the municipalities were facing and failed to have an impact on the overall results of the municipalities.

Addressing the identified shortcomings highlighted in this report will require a coordinated effort by a number of parties to turn the situation around. This would entail the proactive involvement and leadership visibility of the national and provincial Accountants-General, the Department of Local Government and Housing and the Free State Provincial Treasury in complementing the more obvious role of the municipal councils, mayors and municipal managers.

While much needs to be done to improve performance and thereby service delivery, we are confident that the tide can be turned towards achieving financially unqualified audit opinions and we will follow up on the action plans developed for improved local government performance and report on the related progress in the next general report.

In conclusion, I wish to thank the Auditor-General of South Africa's staff in the Free State for their diligent efforts towards the fulfilment of our constitutional mandate. I would like to express my appreciation to the councillors, MEC for Local Government and Housing, mayors and officials from the municipalities for their cooperation and input during my visit to present the audit outcomes of the Free State. Together, we will continue to make every effort to collaborate in order to contribute to the strengthening of our country's democracy.

Auditor-General

Pretoria

April 2009



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SECTION 1: COMMITMENTS BY THE EXECUTIVE

Prior year action plans

The prior year MEC action plan focused on the following:

- The need to institutionalise the management of records and documents through dedicated managers.
- Intervention by the Free State Provincial Treasury to focus on the action plans that would address the audit outcomes, including coordinated capacity for internal auditors.
- The need to encourage the availability of mayors and municipal managers.

From the analyses contained in this report it is evident that the main driver of the disclaimer and qualified opinions was the lack of attention awarded to the management of records and documents. No initiatives by the Department of Local Government and Housing or the individual municipalities were evident to ensure that records and documents were properly managed and retained for audit purposes. From the outcomes of the 2007-08 audits, it appears that a concerted effort is required by municipal managers to implement effective controls over records and documents and capacitate internal audit units.

The Free State Provincial Treasury embarked on various initiatives relating to uplifting the financial processes and capacitating internal audit units. However, much still needs to be done to ensure that internal audit units fulfil their responsibilities and contribute to a strong control environment and compliance.

Mayors and municipal managers were found to be much more involved during the 2007-08 audit process and if their involvement relating to the financial systems of their municipalities continues, improvement will be noticeable during the audits for the year ended 30 June 2009.

The MEC: Local Government and Housing has noted the following initiatives, which are linked to the service delivery measures of the department. These initiatives are aimed at proactively assisting municipalities to improve their financial management practices in order to achieve better audit outcomes:

- Appointing adequately skilled and competent officials in critical positions
- Retaining trained staff for a minimum of two years
- Allowing officials to complete their contract periods before reallocation
- Establishing a culture of compliance with laws and regulations
- Defining the difference between the administration at a municipality and the political interventions

Commitments arising from the AG roadshow

As a consequence of the presentation of the 2007-08 audit outcomes by the Auditor-General on 26 March 2009 the following commitments to address the deterioration in audit outcomes were made by the Premier and the MECs for Local Government and Finance:

- Political leadership to support the attraction and retention of competent finance staff as well as their adherence to financial management requirements.
- The Premier's office to concretise structural arrangements for the adequate coordination of municipal finance issues in conjunction with the Provincial Treasury and the Department of Local Government, to provide support and training where necessary, with a strong and consistent mechanism to ensure the action plans are in place and adhered to on a continuous basis.



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SECTION 2: MUNICIPALITIES

1. FINANCIAL REPORTING RESULTS

1.1 Introduction

The Free State Local Government comprises 25 municipalities: five high-capacity, ten medium-capacity and ten low-capacity municipalities. For the purpose of this report only 19 of the 25 municipalities were analysed. Six municipalities were included in this analysis for the following reasons:

- Mafube Municipality – the financial statements were not received for audit purposes at the legislative deadline due to the municipal manager and chief financial officer positions being vacant during the year under review. The newly appointed municipal manager and chief financial officer appointed consultants to draw up financial statements for 2007-08. The financial statements were submitted on 9 February 2009.
- Tokologo Municipality – the financial statements for 2006-07 were submitted for audit purposes on 6 October 2008. This audit will be finalised by 15 April 2009. It is expected that the 2007-08 financial statements will be submitted for auditing during April 2009. The main reasons for the delay were the poor quality of financial statements submitted, lack of management involvement during the audit and lack of capacity in the finance department of the municipality.
- Phumelela Municipality – the financial statements for the 2007-08 and 2006-07 financial years had not been received for audit purposes at the time of this report. The severity of deficiencies in the financial management system and controls at the municipality necessitated the Department of Local Government and Housing to place this municipality under administration. Consultants were appointed to redo the 2005-06 financial statements and update the financial records.
- Nala Municipality – financial statements were received on 28 November 2008 for audit purposes. The audit is expected to be finalised by 31 May 2009.
- Mohokare Municipality – financial statements were received on 23 October 2008 for audit purposes. A significant number of staff members within the finance section of Mohokare are on suspension due to the investigation which is still under way, which makes it very challenging to obtain the required information from the municipality. The audit is expected to be finalised by 15 April 2009.
- Letsemeng Municipality – the finalisation of the audit was delayed due to information not being available and the unavailability of the municipal manager and chief financial officer. The audit report will be finalised by 31 March 2009.

The late submission of financial statements for audit purposes poses a threat to proper accountability, administration and appropriation of funds by municipalities.



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1.2 Overview of audit opinions

Table 1 below provides details of the actual audit outcomes of the Free State municipalities.

Table 1: Audit opinions on municipalities

Type of audit opinion	2007-08		2006-07	
	Number	%	Number ¹	%
Adverse	0	0%	0	0%
Disclaimer	14	74%	10	53%
Qualified	3	16%	8	42%
Financially unqualified (with other matters)	2	10%	1	5%
Financially unqualified (with no other matters)	0	0%	0	0%
Total analysed	19	100%	19	100%

There was a deterioration in so far as the financial qualifications were concerned, with 74% of municipalities receiving a disclaimer of audit opinion, 16% being qualified and 10% being financially unqualified (with other matters).

Of the 14 municipalities which received a disclaimer of audit opinion, ten municipalities (Ngwathe, Naledi, Xhariep, Moqhaka, Masilonyana, Matjhabeng, Dihlabeng, Maluti-A-Phofung, Nketoana and Thabo Mofutsanyana) had remained the same since 2006-07. Four municipalities (Metsimaholo, Mangaung, Motheo and Kopanong) moved from a qualified audit opinion to a disclaimer of audit opinion due to a breakdown in the system of control over documentation. The basis for the disclaimer related to historical issues regarding assets and inadequate internal control and record-keeping.

Of the eight municipalities previously qualified, one was financially unqualified for 2007-08 (Fezile Dabi); three (Mantsopa, Setsoto and Lejweleputswa) remained qualified.

Two municipalities received a financially unqualified (with other matters) opinion namely Fezile Dabi District Municipality and Tswelopele Municipality.

Political instability was noted at seven (37%) of the 19 municipalities analysed, which included political office bearers' influence in the day-to-day running of the municipality. An environment free from political interference, in which the municipality performs its constitutional and statutory functions, enhances leadership commitment and morale at the municipality.

The reasons for the audit opinions were as follows:

- Fezile Dabi moved from a qualified audit opinion in 2006-07 to being financially unqualified (with other matters) in 2007-08 owing to an improvement in management commitment and sufficient skills being

¹ The previously published numbers were restated for comparability purposes for those municipalities included in the analysis for this year



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available. The audit committee and internal audit unit fulfilled their responsibilities during the year and contributed significantly to the achievement of financially unqualified audit opinions.

- Tswelopele remained financially unqualified (with other matters), as they maintained good internal control practices and management.
- The audit opinion on Lejweleputswa remained qualified. The municipality changed from a manual asset register to an electronic version. The assets differed between the two registers. The electronic version was found to be incomplete and the manual register did not contain any values. Management did not correct audit findings timeously.
- The audit opinion on Setsoto remained qualified. Senior management misinterpreted the exemption granted and did not implement new standards relating to assets. There was a lack of coordination with regard to the implementation of the GAMAP standards owing to insufficient prioritisation.
- The audit opinion on Mantsopa remained qualified owing to reconciliations not being performed, as well as a lack of control over direct deposits.
- Metsimaholo moved from a qualified audit opinion to a disclaimer of opinion. The main reasons for this opinion were a lack of involvement by senior management, ineffective oversight by the council, capacity problems and management not timeously taking the necessary steps to put processes in place to ensure the effective conversion to GRAP.
- Mangaung moved from a qualified audit opinion to a disclaimer of opinion. Political influences resulted in the suspension of the city manager and the disruption of council meetings. Documents in support of prior year qualification issues could still not be submitted. Furthermore, the municipality shared a financial system and bank account with its municipal entity and accountability was hampered.
- Motheo moved from a qualified audit opinion to a disclaimer of opinion. There was a lack of commitment owing to senior management positions being filled by persons in acting capacity. The possible closure of the district municipality due to the envisaged metropolitan status of Mangaung Local Municipality impacted negatively on the morale. Supporting documentation on expenditure was not available.
- Kopanong moved from a qualified audit opinion to a disclaimer of opinion. A lack of skills and commitment to correct audit findings, no control over supporting documentation and ineffective monitoring and controls gave rise to the deterioration of the opinion.
- The audit opinion on Moqhaka remained a disclaimer owing to inadequate skills in the finance section and an ineffective filing system. Senior management took no responsibility for deficiencies and expected the appointed consultant to clear it.
- The audit opinion on Masilonyana remained a disclaimer mainly as a result of an inadequate filing system and the non-submission of supporting documentation. Furthermore, a lack of skills existed at senior management level.
- The audit opinion on Matjhabeng remained a disclaimer. There had been no stability in senior management for the previous four years. Consequently, senior management did not take any responsibility and no effort was made to address the cause of the problems. Although GRAP had been implemented, the systems and procedures used were not adjusted to the new accounting basis.
- The audit opinion on Dihlabeng remained a disclaimer, as there was a general lack of knowledge and skills.
- The audit opinion on Maluti-A-Phofung remained a disclaimer, as sufficient audit evidence was not available during the audit process and there was a general lack of controls.
- The audit opinion on Nketoana remained a disclaimer, owing mainly to inexperience of the chief financial officer and ineffective monitoring.
- The audit opinion on Thabo Mofutsanyana remained a disclaimer. Drivers of this opinion were the chief



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financial officer not being available for a considerable time, non-submission of evidence and senior management's inability to provide staff with the requisite capacity to perform assigned tasks.

- The audit opinion on Ngwathe remained a disclaimer owing to a lack of supporting documentation.
- The audit opinion on Naledi remained a disclaimer. There was a leadership vacuum as the municipal manager and chief financial officer positions were vacant during the year. Furthermore, there was still no control over supporting documentation.
- The audit opinion on Xhariep remained a disclaimer. The main drivers were the lack of stability at management level and the non-availability of supporting documentation.

In order to turn around the audit outcome at municipalities in the Free State, leadership must monitor on an ongoing basis, assign authority and responsibility, identify risks and review financial reporting information. Furthermore, the financial support staff must be capacitated.

Table 2 below provides details of the actual audit outcomes of the Free State municipalities according to their respective capacities.

Table 2: Audit opinions on municipalities per grade for 2007-08

Audit opinion	High capacity	Medium capacity	Low capacity	Total
Adverse	0	0	0	0
Disclaimer	5	4	5	14
Qualified	0	2	1	3
Financially unqualified (with other matters)	0	1	1	2
Financially unqualified (with no other matters)	0	0	0	0
Total analysed	5	7	7	19

Of the five high-capacity municipalities, 100% received a disclaimer of audit opinion. Of the seven medium- and seven low-capacity municipalities, 64% received a disclaimer of audit opinion, 22% were qualified and 14% were financially unqualified (with other matters). The leadership and support role of the high- and medium-capacity municipalities is questionable, considering that the lower-capacity municipalities are able to achieve the same and better results.

Given the outcomes of the 2007-08 audits, a concerted effort is required by municipalities to implement effective controls over records and documents and capacitate internal audit units. It is important that the municipalities capacitate staff as soon as possible to improve the audit outcomes of the province in the future. Dedicated attention and focus is required from those charged with governance to implement action plans to address the level of audit opinions in the province through addressing the issue regarding capacity.

The analysis of good practice indicators in table 5 gives an indication of where municipalities should focus their initiatives.

Provincial intervention should focus on the control environment, leadership and monitoring roles and the methods employed by municipalities to safeguard supporting documentation. The Free State Provincial



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Treasury should ensure that there is active involvement and participation in provincial CFO forums by all the municipalities.

Table 3 below provides details of the actual audit outcomes of the Free State municipalities according to their respective districts.

District municipalities can play a leading role in promoting and supporting good financial management practices at those municipalities within their district, provided they themselves can achieve good audit results.

Table 3: Audit opinions on municipalities per district for 2007-08

Audit opinion	Fezile Dabi	Lejwele-putswa	Motheo	Thabo Mofutsanyana	Xhariep	Total
District municipality's own audit opinion	Financially unqualified (with other matters)	Qualified	Disclaimer	Disclaimer	Disclaimer	
Adverse	0	0	0	0	0	0
Disclaimer	3	2	3	4	2	14
Qualified	0	1	1	1	0	3
Financially unqualified (with other matters)	1	1	0	0	0	2
Financially unqualified (with no other matters)	0	0	0	0	0	0
Total	4	4	4	5	2	19

Overall, the best performing districts were Lejweleputswa (qualified) and Fezile Dabi (financially unqualified), as they were the only district municipalities where a disclaimer was not expressed. Currently Thabo Mofutsanyana has received the most (four) disclaimers in the province. District municipalities should play a leading role in promoting and supporting good financial management practices at the municipalities within their district and should also set an example to the municipalities in their districts.

All five districts in the province, however, have significant challenges facing them, as there were in total 14 disclaimers of audit opinion in the province. Not only should there be an improvement in internal controls and record-keeping at these municipalities, but more focus should be placed on building capacity in the finance and internal audit units as well as improvement in leadership involvement. Through the forums and training sessions arranged by the National and Free State Provincial Treasury, opportunities exist for the districts within the province to interact with each other and share solutions to common problems/difficulties.

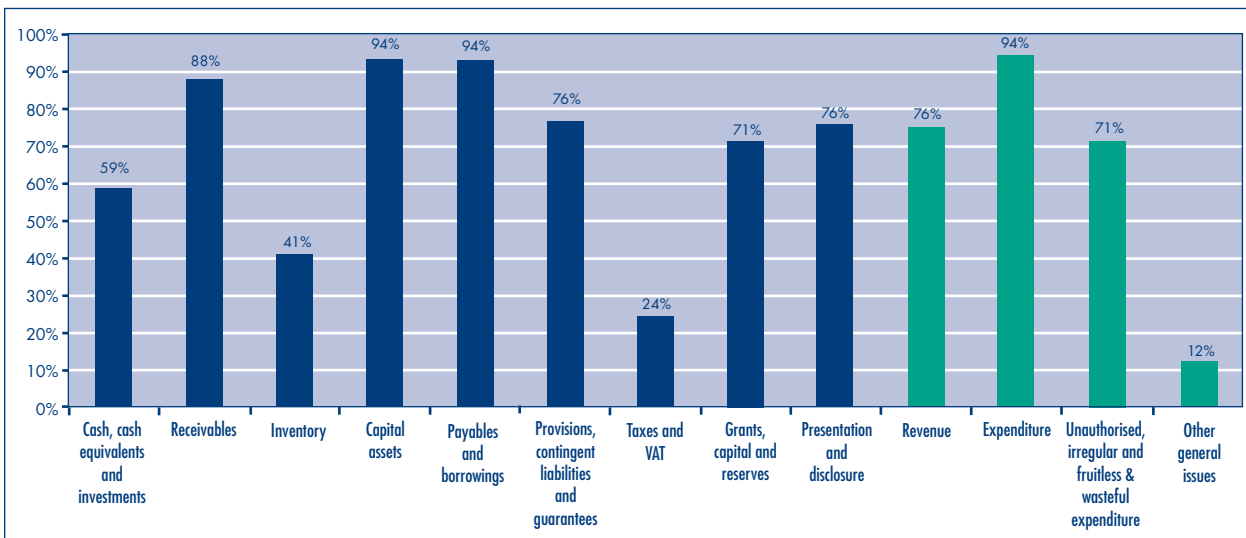


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1.3 Qualification details

Figure 1 below provides a breakdown of the audit findings which gave rise to the qualified audit opinions. It also provides an indication of the percentage of the municipalities that were qualified per audit finding. The audit findings are split between items on the balance sheet (statement of financial position) highlighted in blue bars and the income statement (statement of financial performance) highlighted in green bars. The associated root causes are discussed below.

Figure 1: Municipalities (17) that were qualified per audit finding



Overall conclusion

Mayors were invited to all audit steering committee meetings. Non-attendance was noted in certain instances, probably owing to other commitments or other scheduled meetings. The involvement of internal audit units could have identified shortcomings that would result in qualifications at an early stage and steps could have been taken proactively. This clearly indicates that there is a lack of skills and prioritisation.

Balance sheet items / Statement of financial position (in blue bars)

Capital assets

Capital assets remain a big challenge at the municipalities. Sixteen of the 17 municipalities (94%) were qualified on capital assets. Fixed asset registers were not available for audit purposes and municipalities did not maintain complete and updated fixed asset registers. The main reasons for this were a lack of assigning responsibility and establishing lines of reporting, lack of skills, as well as a lack of segregation to prevent misappropriation of assets.

Payables and borrowings

Sixteen municipalities (94%) were qualified on payables and borrowings, as they could not provide sufficient and appropriate audit evidence to confirm payables. They created suspense accounts to account for direct deposits where the depositor was not easily identifiable. This was a result of written procedures and adequate record-keeping not being implemented and communicated throughout the municipality.



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Receivables

In 15 of the municipalities (88%) no sufficient and appropriate audit evidence could be obtained to confirm receivables as disclosed in the financial statements. Furthermore, receivables were not measured and tested for collectability. The main reasons for this were a lack of written procedures and adequate record-keeping not being implemented and communicated throughout the municipality.

Provisions, contingent liabilities and guarantees

Thirteen municipalities (76%) were qualified on provisions, contingent liabilities and guarantees because sufficient and appropriate evidence was not available and certain municipalities did not provide for all the applicable provisions in terms of the reporting requirements. The main reason for these qualifications was that policies relating to reliable financial reporting were not established and communicated throughout the municipality.

Presentation and disclosure

At 13 of the municipalities (76%) presentation and disclosure requirements were not adhered to and sufficient and appropriate evidence could not be provided for all the disclosures made in the financial statements owing to a lack of written procedures, adequate record-keeping not being implemented and communicated throughout the municipality, as well as a lack of financial reporting competencies.

Grants, capital and reserves

Twelve (71%) municipalities were qualified owing to their inability to provide sufficient and appropriate audit evidence as well as the incorrect accounting treatment of transactions relating to these items. This resulted from a lack of written procedures, adequate record-keeping not being implemented and communicated throughout the municipality, as well as a lack of financial reporting competencies.

Income statement / Statement of financial performance (in green bars)

Income statement/Statement of financial performance items, which relate only to transactions incurred during the financial year under review, were mainly qualified due to the reasons listed below.

Expenditure

Sixteen municipalities (94%) were qualified on expenditure. Sufficient and appropriate audit evidence to confirm expenditure balances as disclosed in the financial statements could not be provided owing to a lack of written procedures and adequate record-keeping not being implemented and communicated throughout the municipality. Furthermore, transactions relating to expenditure were incorrectly accounted for owing to a lack of adequate monitoring and supervision.

Revenue

Thirteen municipalities (76%) were qualified on revenue. Sufficient and appropriate audit evidence to confirm revenue balances as disclosed in the financial statements could not be provided owing to a lack of written procedures and adequate record-keeping not being implemented and communicated throughout the municipality. Furthermore, transactions relating to revenue were incorrectly accounted for owing to a lack of adequate monitoring and supervision.

Unauthorised, irregular and fruitless and wasteful expenditure

Twelve municipalities (71%) did not properly disclose unauthorised, irregular and fruitless and wasteful expenditure in their financial statements owing to a lack of financial reporting competencies.



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Other general issues

Of the 19 municipalities analysed, going concern problems were identified at ten (53%) of the municipalities. Two municipalities (11%) were qualified as they experienced severe going concern problems, which resulted from the municipalities' inability to collect outstanding debt. Going concern was raised as a concern in the audit reports of a further eight municipalities (42%). Not only should these municipalities improve their debt collection, but proper cash flow projections and management also need to be exercised in order to ensure that these municipalities are in a position to meet all their financial obligations.

1.3.1 Audit qualifications per capacity

Table 4 below provides a breakdown of all the audit findings which gave rise to the qualified audit opinions per grade. It also indicates where the remedial action to be implemented by management should be directed.

Table 4: Audit qualifications per grade

Audit qualifications	High capacity	Medium capacity	Low capacity	Total
Cash, cash equivalents and investments	2	4	4	10
Receivables	5	5	5	15
Inventory	2	4	1	7
Capital assets	5	5	6	17
Payables and borrowings	5	6	5	16
Provisions, contingent liabilities and guarantees	4	5	4	13
Taxes and VAT	1	1	2	4
Grants, capital and reserves	5	3	4	12
Presentation and disclosure	5	4	4	14
Revenue	5	4	4	13
Expenditure	5	6	5	16
Material losses	3	5	4	12
Other general issues	2	0	0	2
Total number of audit qualifications	49	52	48	151

From the above table the following is evident:

(a) High-capacity municipalities

The majority of audit qualifications (69%) relate to income statement items. The main drivers of these qualifications were inadequate systems of control over capital assets as well as a lack of control over supporting documentation. These municipalities also did not have internal capacity to comply fully with all the reporting requirements (GRAP/GAMAP/GAAP – generally accepted accounting practice). This is the area where most of the leadership's attention should be focused in an attempt to turn around the financial position and results of operations for high-capacity municipalities.

(b) Medium-capacity municipalities

The majority of qualifications (71%) relate to the income statement. The main drivers are also the



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lack of adequate skills and capacity to comply with the requirements of the prescribed accounting framework and the lack of senior official involvement with respect to monitoring the operations of the municipalities. Assistance and guidance from both the National Treasury and provincial treasuries are encouraged.

(c) Low-capacity municipalities

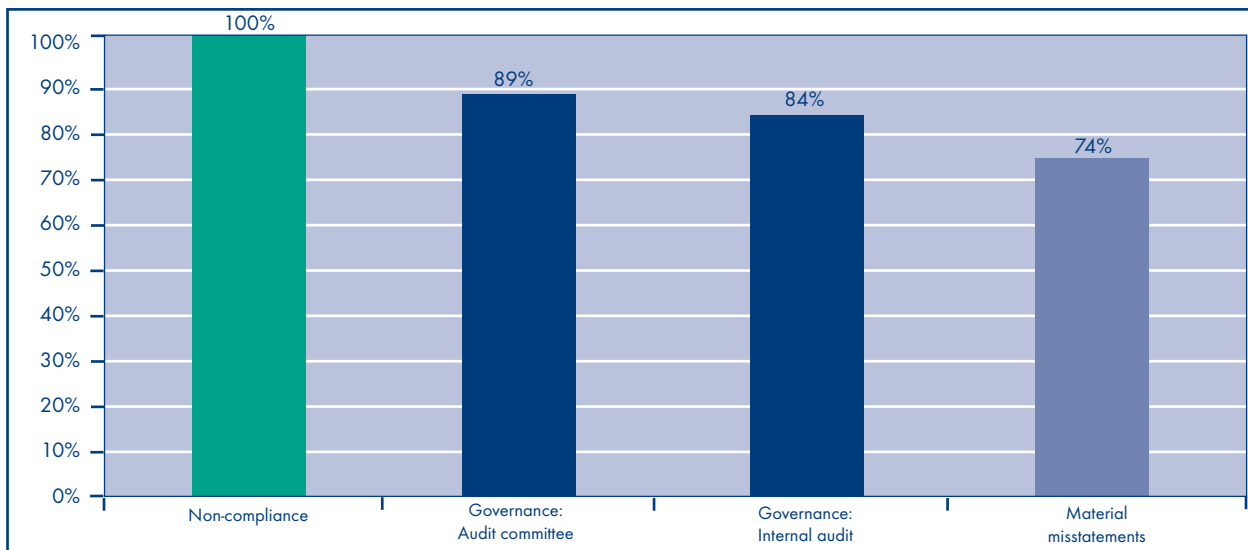
The majority of qualifications (73%) relate to the income statement. The main drivers are also the lack of adequate skills and capacity to comply with the requirements of the prescribed accounting framework and the lack of senior officials' involvement with respect to monitoring the operations of the municipalities.

1.4 Audit findings related to other matters

The audit findings reported under "other matters" draw attention to the matters that are ancillary to the AGSA's responsibilities in the audit of the financial statements.

Figure 2 below provides further details on the findings associated with other matters, as well as the percentage of municipalities linked to the findings.

Figure 2: Municipalities (19) linked to other matters



Non-compliance with applicable legislation

Instances of material non-compliance with relevant legislation not affecting the financial statements were reported in 19 (100%) municipalities. Non-compliance with the MFMA: provisions most transgressed and/or most challenging included requirements regarding the budget process and creditors not paid within 30 days, while MSA compliance issues in the main related to councillors not declaring their interest and inadequate performance management systems at the municipalities.

Inadequate supervision and monitoring by the leadership (municipal managers, chief financial officers and relevant managers) in part contributed to the negative audit findings in this area. The main drivers behind the



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above findings can be traced to a lack of capacity and skills, as well as internal control measures regarding supervision and monitoring not always being in place. The right leadership tone is necessary to address these shortcomings to ensure a strong control environment with a high level of compliance. Internal audit can also play a key role in this regard.

Governance

Audit committees and internal audit units are essential elements in the management review process of the design and maintenance of sound internal controls to achieve good governance and accountability and ensure that risk management processes receive the appropriate attention.

- Audit committee

Seventeen or 89% of the audit committees in the province were not effective and did not substantially fulfil their responsibilities for the year as set out in section 166(2) of the MFMA. Efforts to attract and retain suitably qualified audit committee members in all categories of municipalities should be intensified. The Free State Provincial Treasury and the South African Institute of Chartered Accountants (SAICA) can play a leading role to assist the other municipalities in this regard. The two municipalities in which the audit committees were effective were Fezile Dabi and Metsimaholo.

- Internal audit

Sixteen or 84% of the municipalities' internal audit units were not effective and did not substantially fulfil their responsibilities for the year as set out in section 165(2) of the MFMA. The provincial treasury can also play a crucial role in building the capacity and skills of the existing internal audit units across all municipalities. In addition, the attraction and retention of appropriately qualified internal audit personnel should remain a priority for municipalities. The three municipalities where the internal audit units were effective were Fezile Dabi, Metsimaholo and Maluti-A-Phofung.

- Other matters of governance

Other matters of governance mainly related to material corrections to the financial statements, as depicted in figure 2 above, significant difficulties experienced during the audits, the implementation of prior year audit recommendations and GRAP readiness.

- Material misstatements/corrections to the financial statements

Municipalities at all levels continued to experience significant difficulties in producing financial statements for audit purposes that were free from material errors and omissions. This is indicative of a situation where there is a lack of monitoring by the relevant leadership; structural defects in the control environment; lack of compliance with defined control activities; and a lack of readiness and skills to deal with the complex accounting issues. This situation could have led to more severe qualifications of the municipalities had they not adjusted their financial statements during the audit, based on the findings of the auditors. The five municipalities where there were no material misstatements in the financial statements were Masilonyana, Tswelopele, Mantsopa, Dihlabeng and Setsoto.

The next few years will pose greater challenges to municipalities with the ongoing transition to GRAP. In order to deal with the prevalence of material misstatements in financial statements that have to be corrected during the audit period, municipalities should continue to work closely with the provincial treasury to:



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- develop a strategy that has the overall aim of improving financial management controls in order to produce accurate financial statements
 - ensure the effectiveness of external consultants used to prepare a set of financial statements
 - coordinate the good practices existing in municipalities that received unqualified audit opinions and utilise this opportunity for knowledge sharing and twinning
 - issue regular financial statements throughout the year.
- Readiness to implement GRAP, GAMAP and GAAP
- The National Treasury determined in *Government Gazette No. 30013 of 29 June 2007* that a municipality that applied any of the exemptions contained therein must prepare a detailed implementation plan setting out its intended and actual progress towards full GRAP, GAMAP and GAAP implementation. In this regard, the AGSA has assessed the readiness of municipalities to fully implement GRAP as follows:
- Eleven (58%) of the municipalities in the Free State submitted their implementation plan to the National and Free State Provincial Treasury before 31 October 2007, detailing progress towards full compliance with GRAP.
 - Six (32%) of the municipalities in the Free State complied with their implementation plans submitted on 31 October 2007.
 - Nine (47%) of the municipalities submitted progress reports to the National and Free State Provincial Treasury before 31 March 2008.

Based on our analysis, the non-submission of implementation plans was primarily due to lack of understanding the complexity of GRAP by municipalities. Historical issues and capacity constraints hamper municipalities from effectively implementing GRAP. It is important that processes are developed and implemented to ensure that there are adequate skills and resources which will enable full compliance with GRAP. The municipal leadership with the assistance of the National and Free State Provincial Treasury should ensure that processes are developed and implemented in order to ensure that municipalities are moving towards being fully GRAP compliant.

The National and Free State Provincial Treasury should continue to support and guide municipalities in their transition to fully implement GRAP, GAMAP and GAAP in accordance with the applicable government gazettes. Closer monitoring is required by the treasuries to ensure full compliance with the implementation plans. Furthermore, the capacity and skills of municipalities also need to be strengthened further to enable them to be well placed to fully implement the new accounting standards.

2. PERFORMANCE REPORTING RESULTS

2.1 Introduction

The AGSA has adopted a phased-in approach for compliance with the relevant sections of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) until such time as a performance management and reporting framework has been legislated² and the audited environment has reached a level of maturity so as to provide

² Although the National Treasury issued the *Framework for managing programme performance information* during May 2007, the legal status (i.e. compulsory/legally binding or only a guideline) has not been officially indicated by the National Treasury.



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reasonable audit assurance in the form of an audit opinion or conclusion. It is anticipated that this maturity level will only be reached during the July 2009 – June 2010 financial year.

2.2 Overview of the results of the auditing of performance information

The AGSA continued to report on the auditing of performance information in line with the relevant phasing-in approach. For 2007-08 the review was extended to the controls and systems used in generating and reporting on performance information.

From the analysis of the findings reported under performance information, all indications are that some important areas in the management of and reporting on performance information at municipal level remain a concern. These areas of concern are highlighted below:

- No reporting on performance information (42%).
- Key performance indicators and performance targets were not included in the integrated development plans of nine municipalities (47%).
- No internal auditing of the performance information (47%).
- No performance audit committee (42%).

As can be seen from paragraph 3.2 below, municipalities are greatly improving in terms of development of, and compliance with, risk management and good internal control and governance practices; this effort should be replicated in the reporting of performance information as well. The internal control system of the municipalities should also cover the process of reporting performance information in order to address these issues. The internal audit plans must also cater for internal review of performance measurement and audit committees should exercise oversight of the effective functioning of the control system relating to performance information.

3. ISSUES DRIVING AUDIT RESULTS

3.1 Introduction

The following is considered to be the basic good practice indicators which are relevant for achieving improved financial management as well as performance results which should result in improved audit results:

- Clear trail of supporting documentation
- Quality of financial statements and management information
- Timeliness of financial statements and management information
- Availability of key officials during audits
- Development of, and compliance with, risk management and good internal control practices
- Leadership, supervision and monitoring (leadership effectiveness)



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3.2 Achievement against good practice indicators

Table 5 below presents the results of the Free State municipalities achieving the above good practice indicators.

Table 5: Results of good practice indicators for Free State municipalities for 2007-08

No.	Good practices	2007-08	2006-07
1	Clear trail of supporting documentation that is easily available and provided in time	21%	11%
2	Quality of financial statements and related management information	26%	11%
3	Timeliness of financial statements and related management information	84%	58%
4	Availability of key officials during audits	68%	32%
5	Development of, and compliance with, risk management and good internal control and governance practices	16%	5%
6	Leadership / supervision / monitoring	21%	5%

The good practice indicators for 2006-07 differ from the published general report, as the prior year results of the 19 municipalities included in this report are now stated as comparatives.

Even though there has been a general improvement in the indicators in table 5, the municipalities analysed have not yet reached an acceptable level of performance in this regard.

- **Clear trail of supporting documentation**

During the 2007-08 audits, we noted that the disclaimers of audit opinion on Free State municipalities were mainly driven by the fact that information could not be presented to the auditors during the audit (limitation of scope). While an improvement is noticeable from the previous year, the majority (79%) of municipalities' supporting documentation was not easily accessible. These municipalities have to do much more to ensure that sufficient appropriate audit evidence is available to support the transactions and balances in the financial statements. Significant difficulties were experienced during most of the audits concerning delays in providing or the unavailability of required information. The management of documentation requires further improvement to ensure that it is readily available and furnished in a timely manner for audit purposes. The four municipalities where documentation was more readily available were Fezile Dabi, Tswelopele, Lejweleputswa and Mantsopa.

- **Quality of annual financial statements**

Municipalities have continued to make progress in response to challenges to submit quality financial statements. Challenges remain for 74% of municipalities to improve in this area. Only Setsoto, Fezile Dabi, Mantsopa, Tswelopele and Lejweleputswa submitted financial statements of an acceptable quality.



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Material corrections to the financial statements mainly related to issues of disclosure associated with the ongoing transition to implement GRAP, GAMAP and GAAP, as well as financial statement balances. In an effort to further improve the quality and completeness of financial statements, the following initiatives should be considered:

- The planning for the preparation of financial statements needs to be improved with closer monitoring of the implementation of the plan.
- The capacity and skills of finance staff need to be strengthened and/or augmented by external sources.
- The effective use of consultants to compile financial statements must include the appropriate skill transfer to existing municipal staff.
- Processes (manual or automated) need to be further refined in order to accurately collate information for the preparation and presentation of the financial statements.
- Contentious accounting issues should be clarified and resolved on a timely basis before the financial statements are submitted for audit purposes.
- Interim financial statements should be prepared throughout the year.
- The financial statements should be subjected to a quality review process before they are submitted for audit purposes.

• **Timeliness of annual financial statements**

While the quality of financial statements is important, as mentioned before, the timely submission of financial statements for auditing is equally important. Good planning for the financial statement preparation process resulted in only Mafube, Naledi, Mantsopa, Nala, Tokologo, Xhariep, Mohokare and Phumelela (eight - 32%) of the 25 municipalities not submitting their financial statements for auditing by the legislated deadline of 31 August. This is an improvement on the previous financial year when 12 (48%) municipalities did not submit their financial statements for auditing by the legislated deadline of 31 August. More needs to be done to achieve the legislative deadlines and care should be taken that it does not happen at the expense of quality and completeness of financial statements.

• **Availability of key officials**

As noted in the previous general report, key officials were in some cases not available to provide the required context to audit findings. However, there was a notable improvement in the availability of key officials (at Fezile Dabi, Metsimaholo, Moqhaka, Ngwathe, Lejweleputswa, Matjhabeng, Tswelopele, Mangaung, Mantsopa, Dihlabeng, Nketoana, Xhariep and Kopanong) during the audit to deal with audit-related matters and clear these in a timely manner. This went a long way in avoiding qualifications in that key officials were able to timeously respond to and resolve audit findings in good time before the final audit conclusion.

• **Development of, and compliance with, risk management and good internal control and governance practices**

Effective risk management and internal control practices continued to be a challenge for the majority (84%) of the municipalities. Contrary to legislative requirements, fraud prevention plans and risk management strategies either did not exist or were not regularly updated and monitored at the majority



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of municipalities. Management did not provide the necessary priority to risk management during the year. The municipalities where effective risk management and internal control practices were in place were Fezile Dabi, Metsimaholo and Maluti-A-Phofung.

- **Leadership, supervision and monitoring**

Leadership sets a proper “tone at the top” to create a sound control environment. The leadership must ensure that competent and skilled staff are employed, particularly in the finance and accounting division. Effective leadership and oversight are needed to monitor the performance of management, especially in so far as financial management is concerned. A lack of monitoring is the root cause of an ineffective system of internal control which gave rise to audit qualifications.

The practice of supervision and monitoring, especially in so far as financial management is concerned, was evident in only 21% of the municipalities, namely Fezile Dabi, Mantsopa, Tswelopele, and Setsoto.





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SECTION 3: MUNICIPAL ENTITIES

1. FINANCIAL REPORTING RESULTS

1.1 Introduction

The Free State Local Government comprises four municipal entities. For the purpose of this report only three of the four entities were analysed, while the following entity was not included for the following reason:

- Krynauwvlust Farming Trust – financial statements were submitted late for audit. The financial statements for the five prior financial years have not been audited. The entity disputes a legal opinion and a Public Accounts Committee resolution that the AGSA should audit this entity. The entity has indicated that they are not willing to pay the audit fees. The audit has been suspended pending negotiations with the entity and the Department of Local Government and Housing.

1.2 Overview of audit opinions on municipal entities for 2007-08

Table 1 below provides details of the actual audit outcomes of the Free State municipal entities.

Table 1: Audit opinions on municipal entities

Type of audit opinion	2007-08		2006-07	
	Number	%	Number	%
Disclaimer	2	67%	2	67%
Adverse	1	33%	1	33%
Qualified	0	0%	0	0%
Financially unqualified (with other matters)	0	0%	0	0%
Financially unqualified (with no other matters)	0	0%	0	0%
Total analysed	3	100%	3	100%

There was no improvement on the audit opinions expressed in the prior year.

The Lejweleputswa Development Agency (LDA) again received an adverse audit opinion. Senior management did not have the knowledge and skills to resolve the majority of audit findings from the previous year. This resulted in the suspension of senior management.

The audit opinion on Centlec remained a disclaimer owing to poor financial management. Centlec did not implement all policies and procedures. The transactions of the entity were captured on the accounting system of the parent municipality and consequently the entity was unable to fully control their own financial system.

The audit opinion on Maluti Water remained a disclaimer, as supporting documentation could not be



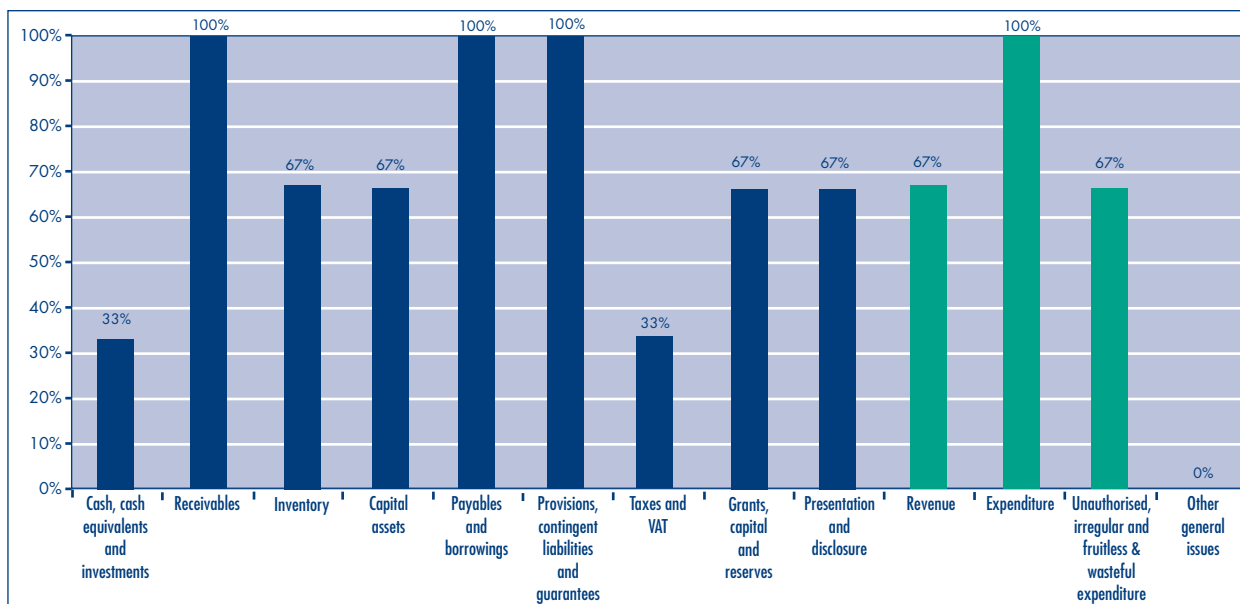
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submitted. The entity did not have access to source documentation to support the revenue paid to them by the parent municipality.

1.3 Qualification details

Figure 1 below provides a breakdown of all the audit findings which gave rise to the qualified audit opinions. It also provides an indication of the percentage of the municipal entities that were qualified per audit finding. The audit findings are split between items on the balance sheet (statement of financial position) highlighted in blue bars and the income statement (statement of financial performance) highlighted in green bars. The associated root causes are discussed below.

Figure 1: Municipal entities (three) that were qualified per audit finding



Overall conclusion

A lack of skills and prioritisation resulted in the qualifications above. No internal audit units were established to identify shortcomings at an early stage and take steps proactively.

Balance sheet / statement of financial position items (in blue bars)

Receivables

All three entities could not provide sufficient and appropriate audit evidence to confirm receivables disclosed in their financial statements owing to a lack of written procedures and adequate record-keeping not being implemented and communicated throughout the municipal entities. Furthermore, receivables were not measured and tested for collectability due to the entities' financial system problems.

Inventory

Centlec and Maluti Water could not account for all inventory items on their inventory management system owing to inadequate controls over and monitoring of inventory items.



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Capital assets

Centlec and Maluti Water did not assess the useful lives and residual values of their capital assets at least annually due to inadequate financial management as well as an inadequate financial system. Furthermore, not all the measurement and disclosure requirements were complied with.

Payables and borrowings

All three entities did not comply with the measurement and disclosure requirements in respect of payables and borrowings due to financial system control weaknesses. Furthermore, sufficient and appropriate audit evidence could not be submitted owing to a lack of written procedures and adequate record-keeping not being implemented and communicated throughout the entities.

Provisions, contingent liabilities and guarantees

All three entities did not provide for all balances in terms of the reporting requirements owing to inadequate financial management and reporting.

Grants, capital and reserves

Centlec and Maluti Water could not provide sufficient and appropriate audit evidence to support their grants, capital and reserves owing to a lack of written procedures and adequate record-keeping not being implemented and communicated throughout the municipal entities.

Presentation and disclosure

Centlec and Maluti Water did not adhere to all the presentation and disclosure requirements prescribed by the applicable accounting standards and sufficient and appropriate evidence could also not be provided for all the disclosures made in the financial statements. This resulted from a lack of written procedures, adequate record-keeping not being implemented and communicated, as well as a lack of financial reporting competencies.

Income statement / statement of financial performance items (in green bars)

Income statement/statement of financial performance items, which relate only to transactions incurred during the financial year under review, were mainly qualified due to the following:

Revenue

Centlec and Maluti Water could not provide sufficient and appropriate audit evidence to confirm revenue balances as disclosed in their financial statements owing to a lack of written procedures and adequate record-keeping not being implemented and communicated throughout the municipal entities. Furthermore, transactions relating to revenue were incorrectly accounted for owing to a lack of adequate monitoring and supervision.

Expenditure

None of the entities could provide sufficient and appropriate audit evidence to confirm expenditure balances as disclosed in their financial statements owing to a lack of written procedures and adequate record-keeping not being implemented and communicated.

Unauthorised, irregular and fruitless and wasteful expenditure

Centlec and Maluti Water did not properly disclose unauthorised, irregular and fruitless and wasteful expenditure in their financial statements owing to a lack of financial reporting competencies.



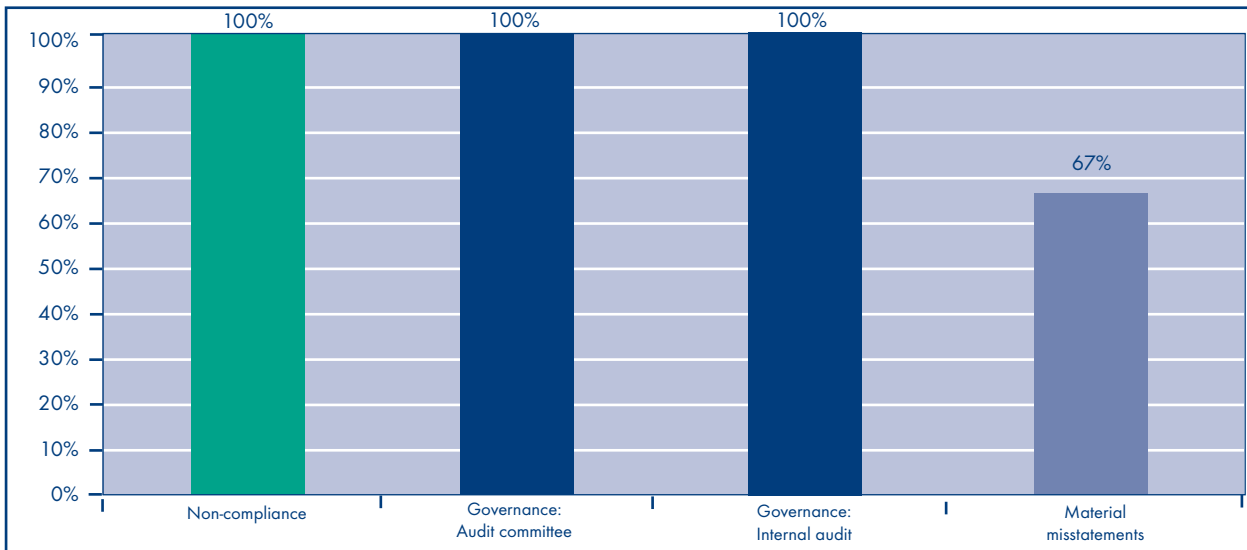
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1.4 Audit findings related to other matters

The audit findings reported under “other matters” draw attention to the matters that are ancillary to the AGSA’s responsibilities in the auditing of the financial statements.

Figure 2 below provides further details on the findings associated with other matters, as well as the percentage of municipal entities linked to the findings.

Figure 2: Municipal entities (three) linked to other matters



Non-compliance with applicable legislation

Material non-compliance with relevant legislation not affecting the financial statements relating to non-compliance with the MFMA was reported at all municipal entities (100%). The inadequate supervision and monitoring by the leadership (municipal managers, chief financial officers and relevant managers) had in part contributed to the negative audit findings in this area. Non-compliance with the MFMA: provisions most transgressed and/or most challenging included requirements regarding the creditors not being paid within 30 days, while MSA compliance issues in the main related to councillors not declaring their interests. All municipal entities reported non-compliance with their enabling legislation. The right leadership tone, with the support of internal audit units, is necessary to establish a strong control environment and ensure compliance.

Governance

All three entities (100%) had concerns raised on matters of governance, which included findings on audit committees, the timely availability of supporting documentation and implementation of corrective action on external audit findings.



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- Audit committee and internal audit

Internal audit and audit committees are essential elements in the management review process as they contribute to the design and maintenance of sound internal controls. None of the three municipal entities had an audit committee and internal audit unit that substantially fulfilled their responsibilities during the year.

Efforts to attract and retain suitably qualified audit committee members in all categories of municipalities should be further intensified. The controlling municipalities, provincial treasury and the South African Institute of Chartered Accountants can play a leading role in assisting the other municipalities in this regard. In addition, the attraction and retention of appropriately qualified internal audit personnel should remain a priority for municipalities.

- Other matters of governance

Other matters of governance mainly relate to material corrections to the financial statements, as depicted in figure 2 above, as well as significant difficulties experienced during the audits and the implementation of prior year audit recommendations.

- Material misstatements/corrections to the financial statements
Centlec and LDA continued to experience significant difficulties in producing financial statements for audit purposes that were free from material errors and omissions. This is indicative of a situation where there is a lack of monitoring by the relevant leadership; structural defects in the control environment; lack of compliance with defined control activities; and a lack of readiness and skills to deal with the complex accounting issues. This situation could have led to more severe qualifications of the municipal entities had they not adjusted their financial statements during the audit, based on the findings of the auditors.
- Timely submission of financial statements
Good planning for the financial statement preparation process resulted in only one (Centlec, 25%) of the four municipal entities not submitting their financial statements for auditing by the legislated deadline of 31 August. The process needs to be carefully managed, with closer monitoring not only to produce financial statements within the legislative deadlines, but also to ensure the completeness and quality of the financial statements.
- Significant difficulties experienced during the audits and implementation of prior year audit recommendations
Significant difficulties were experienced during the audit concerning delays or the unavailability of expected information, while some municipal entities had not substantially implemented corrective action on the prior year's external audit findings.

2. PERFORMANCE REPORTING RESULTS

2.1 Overview of the results of the auditing of performance information

The AGSA continued to report on the auditing of performance information in line with the relevant phasing-in approach. For 2007-08 the review was extended to the controls and systems used in generating and reporting on performance information.

The fact that none of the municipal entities (100%) reported on performance information, is an indication of the lack of progress made in this regard.



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3. ISSUES DRIVING AUDIT RESULTS

3.1 Achievement against good practice indicators

Table 2 below presents the results of the Free State municipal entities achieving the above good practice indicators.

Table 2: Results of good practice indicators for Free State municipal entities for 2007-08

No.	Good practices	2007-08 *
1	Clear trail of supporting documentation that is easily available and provided in time	0%
2	Quality of financial statements and management information	0%
3	Timeliness of financial statements and management information	33%
4	Availability of key officials during audits	67%
5	Development of, and compliance with, risk management and good internal control and governance practices	0%
6	Leadership / supervision / monitoring	0%

* This would serve as a baseline to monitor future improvement

- **Clear trail of supporting documentation**

The municipal entities have to do much more to ensure that sufficient appropriate audit evidence is available to support the transactions and balances in the financial statements. Significant difficulties were experienced during the audits concerning delays in providing or the unavailability of required information. The management of documentation requires improvement to ensure that it is readily available and furnished in a more timely manner for audit purposes.

- **Quality of annual financial statements**

Material misstatements in the financial statements mainly related to issues of disclosure associated with the incorrect accounting treatments and incorrect classification. In this regard, processes need to be implemented in order to accurately collate information for the preparation and presentation of the financial statements as mentioned above. The quality of the financial information is a reflection of inadequate monitoring and capacity within the municipal entities.

- **Timeliness of annual financial statements**

While the quality of financial statements is important, the timely submission of financial statements for auditing is equally important. Inadequate planning for the financial statement preparation process resulted in only one (Centlec - 25%) of the four municipal entities submitting their financial statements for auditing by the legislated deadline of 31 August.



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- **Availability of key officials**

The key officials (chief executive officers and chief financial officers) of LDA and Maluti Water (67%) were available during the audit to deal with audit-related matters and clear these in a timely manner. The availability of key officials goes a long way towards avoiding qualifications, because officials receive earlier notice of audit findings and are able to take corrective action before the final conclusions that lead to an audit opinion.

- **Development of, and compliance with, risk management and good internal control and governance practices**

Effective risk management and internal control practices continue to be a challenge for all municipal entities. Contrary to legislative requirements, fraud prevention plans and risk management strategies either did not exist or were not regularly updated and monitored at the majority of municipal entities. Management did not give the necessary priority to risk management during the year.

- **Leadership, supervision and monitoring**

Leadership sets a proper "tone at the top" to create a sound control environment. The leadership must ensure that competent and skilled staff are employed, particularly in the finance and accounting division. Effective leadership and oversight are needed to monitor the performance of management, especially in so far as financial management is concerned. A lack of monitoring was the root cause of an ineffective system of internal control which gave rise to audit qualifications. The practice of supervision and monitoring was not evident at all the municipal entities.

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SECTION 4: CONCLUSION

As highlighted in this report the Free State faces a number of challenges with local government performance which will require a coordinated effort by the leadership of the province with the support of the national and provincial treasuries to turn the situation around. However, there are indications that progress is being made and the actions taken by the MECs, councils, provincial treasuries and municipalities are welcomed.

The deterioration in audit opinions expressed on municipalities is the result of a lack of good practices at the municipalities. Municipal managers must make a concerted effort to maintain and improve on good practices, especially with regard to the availability of documentation and efforts to avoid material misstatements. Municipalities should focus on addressing the shortcomings around capital assets, revenue and receivables, expenditure and payables, and financial reporting and addressing critical skills challenges. Senior management should ensure efficient monitoring and supervision to address areas of non-compliance with legislation. Since internal audit units are crucial to assist management in establishing a sound internal control environment and ongoing evaluation and monitoring of management's compliance with predefined controls and progress in implementing the action plans, the internal audit units should be strengthened. The availability of key officials is critical during the audit process and should be emphasised.

There is a need for the MEC for Local Government together with the leadership of the municipality to design and implement action plans that clearly identify areas of concern and areas for improvement according to predetermined time frames. The leadership of the municipality should become more involved to ensure efficient monitoring and supervision to address the areas of concern highlighted in this report. It is imperative that the audit committee and internal audit units fulfil their obligations to ensure development of, and compliance with, risk management and good internal control and governance practices. Refer to section 1 for further recommendations and initiatives envisaged by the MEC for Local Government and Housing.

Municipal entities need to take drastic steps in improving their financial administration to avoid adverse audit opinions and disclaimers. Municipal entities should focus on addressing the shortcomings around capital assets, revenue and receivables, expenditure and payables, and provisions and on addressing critical skills challenges. Non-compliance with legislation and the quality of financial statements remain a challenge for municipal entities and senior management should become more involved to ensure efficient monitoring and supervision to address these areas. Again, emphasis should be placed on capacitating the internal audit units, which is critical in driving a different audit outcome.

We are confident that the challenges are not insurmountable and remain committed to working with the councils, legislatures and executive to assist in the process of identifying and disseminating good practices to increase governance and accountability, so as to build public confidence in the government's ability to account for public resources in a transparent manner.



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SECTION 5: AUDIT FEES OUTSTANDING

There is a significant portion of audit fees still owing to the AGSA relating to the 2007-08 audit cycle. Most of these amounts are older than 30 days even though they were due and payable within 30 days of the date of invoice.

Recovery of these amounts is very slow notwithstanding the efforts made by the AGSA to visit the municipalities and follow up on outstanding amounts. This leaves the AGSA with no other option but to bring this formally to the attention of other spheres of government, with a view to seeking appropriate measures of assistance and relief.



AUDITOR - GENERAL
SOUTH AFRICA

ANNEXURE 1.1: FREE STATE MUNICIPALITIES – AUDIT OUTCOMES

No.	Municipality	Capacity	Category (M, DM, LM)	District municipality under which municipality falls	Audit opinion: 2007-08	Audit opinion: 2006-07	Cash, cash equivalents and investments	Receivables	Inventory	Capital assets	Payables and borrowings	Provisions, contingencies and guarantees	Taxes and VAT	Grants, capital and reserves	Presentation and disclosure	Revenue	Expenditure	Unauthorised, irregular and wasteful expenditure	Other general issues	Non-compliance	Government: Audit committee	Government: Internal audit	Government: Other matters	Material misstatements
1	Fezile Dabi District	Low capacity	DM	Fezile Dabi District	Financially unqualified (with other matters)	Qualified																		1
2	Metsimabalo	High capacity	LM	Fezile Dabi District	Disclaimer	Qualified		1																1
3	Mogalakga	High capacity	LM	Fezile Dabi District	Disclaimer	Disclaimer		1																1
4	Ngwathe	Medium capacity	LM	Fezile Dabi District	Disclaimer	Disclaimer		1																1
5	Lejweleputswa District	Low capacity	DM	Lejweleputswa District	Qualified	Qualified			1															1
6	Masilanyana	Low capacity	LM	Lejweleputswa District	Disclaimer	Disclaimer		1																1
7	Matjhabeng	High capacity	LM	Lejweleputswa District	Disclaimer	Disclaimer		1																1
8	Tsevelope	Medium capacity	LM	Lejweleputswa District	Financially unqualified (with other matters)	Financially unqualified (with other matters)																		1
9	Mangungu	High capacity	LM	Molheo District	Disclaimer	Qualified		1																1
10	Mantsoya	Medium capacity	LM	Molheo District	Qualified	Qualified			1															1
11	Molheo District	Low capacity	DM	Molheo District	Disclaimer	Qualified		1																1
12	Naledi	Low capacity	LM	Molheo District	Disclaimer	Disclaimer		1																1
13	Ditlhabeng	Medium capacity	LM	Thabo Mafusanyane District	Disclaimer	Disclaimer		1																1
14	Makuti-A-Phofung	High capacity	LM	Thabo Mafusanyane District	Disclaimer	Disclaimer		1																1
15	Mekotona	Medium capacity	LM	Thabo Mafusanyane District	Disclaimer	Disclaimer		1																1
16	Seiso	Medium capacity	LM	Thabo Mafusanyane District	Qualified	Qualified			1															1
17	Thabo Mafusanyane District	Low capacity	DM	Thabo Mafusanyane District	Disclaimer	Disclaimer		1																1
18	Kopongong	Medium capacity	LM	Xhariep District	Disclaimer	Qualified		1																1
19	Xhariep District	Low capacity	DM	Xhariep District	Disclaimer	Disclaimer		1																1

SUMMARY

Totals

Municipalities existing	25
Municipalities analysed	19
Municipalities qualified	17

Municipalities	10	15	7	16	13	4	12	13	13	16	12	2	19	17	16	19	14
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AUDIT QUALIFICATIONS:
Municipalities 59% 88% 41% 94% 94% 76% 24% 71% 76% 76% 94% 71% 12%

OTHER MATTERS:
Municipalities 100% 89% 84% 100% 74%



AUDITOR - GENERAL
SOUTH AFRICA

ANNEXURE 1.2: FREE STATE MUNICIPALITIES – GOOD PRACTICES

No.	Municipality	Capacity	Category (M, DM, LM)	District under which municipality falls	Audit opinion: 2007-08	Audit opinion: 2006-07	Clear trail of supporting documentation that is easily available and provided	Quality of financial statements and management information	Timeliness of financial statements and management information	Availability of key officials during audits	Development of and compliance with risk management and governance practices	Leadership / supervision / monitoring
1	Fezile Dabi District	Low capacity	DM	Fezile Dabi District	Financially unqualified (with other matters)	Qualified	1	1	1	1	1	1
2	Meisinhahlo	High capacity	LM	Fezile Dabi District	Disclaimer	Qualified				1	1	
3	Mogheka	High capacity	LM	Fezile Dabi District	Disclaimer	Disclaimer				1		
4	Nyarthe	Medium capacity	LM	Fezile Dabi District	Disclaimer	Disclaimer				1		
5	Leywebopuwa District	Low capacity	DM	Leywebopuwa District	Qualified	Qualified	1	1	1	1		
6	Masibiyana	Low capacity	LM	Leywebopuwa District	Disclaimer	Disclaimer				1		
7	Mafjibang	High capacity	LM	Leywebopuwa District	Disclaimer	Disclaimer				1		
8	Tswelopele	Medium capacity	LM	Leywebopuwa District	Financially unqualified (with other matters)	Financially unqualified (with other matters)	1	1	1	1		1
9	Manguung	High capacity	LM	Molheo District	Disclaimer	Qualified				1		
10	Mantsopu	Medium capacity	LM	Molheo District	Qualified	Qualified	1	1		1	1	
11	Molheo District	Low capacity	DM	Molheo District	Disclaimer	Qualified		1				
12	Naledi	Low capacity	LM	Molheo District	Disclaimer	Disclaimer						
13	Dhlabang	Medium capacity	LM	Thabo Mofutsanyane District	Disclaimer	Disclaimer				1		
14	Mafit-A-Photong	High capacity	LM	Thabo Mofutsanyane District	Disclaimer	Disclaimer					1	
15	Nkoianna	Medium capacity	LM	Thabo Mofutsanyane District	Disclaimer	Disclaimer				1		
16	Sesoto	Medium capacity	LM	Thabo Mofutsanyane District	Qualified	Qualified		1				1
17	Thabo Mofutsanyane District	Low capacity	DM	Thabo Mofutsanyane District	Disclaimer	Disclaimer						
18	Kapanong	Medium capacity	LM	Xhariep District	Disclaimer	Qualified				1		
19	Xhariep District	Low capacity	DM	Xhariep District	Disclaimer	Disclaimer				1		

SUMMARY

Totals	
Municipalities existing	25
Municipalities analysed	19
Municipalities qualified	17

Municipalities	4	5	16	13	3	4
GOOD PRACTICES Municipalities	21%	26%	84%	68%	16%	21%



AUDITOR - GENERAL
SOUTH AFRICA

ANNEXURE 1.3: FREE STATE MUNICIPAL ENTITIES – AUDIT OUTCOMES

No.	Municipality	Municipality under which municipal entity falls	Audit opinion: 2007-08	Audit opinion: 2006-07	Cash, cash equivalents and investments	Receivables	Inventory	Capital assets	Payables and borrowings	Provisions, contingencies and guarantees	Taxes and VAT	Grants, capital and reserves	Presentation and disclosure	Revenue	Expenditure	Unauthorised, irregular and fruitless and wasteful expenditure	Other general issues	Non-compliance	Governance: Audit committee	Governance: Internal audit	Governance: Other matters	Material misstatements
1	Cemtek (Pty) Ltd	Mangaung	Disclaimer	Disclaimer		1	1	1	1	1		1	1	1	1	1		1	1	1	1	1
2	Lejweleputswa Development Agency	Lejweleputswa	Adverse	Adverse	1				1	1					1			1	1	1	1	1
3	Moloti-A-Phofung Water	Moloti-A-Phofung	Disclaimer	Disclaimer	1	1	1	1	1	1	1	1	1	1	1	1		1	1	1	1	1

SUMMARY

Totals																							
Municipal entities existing	4																						
Municipal entities analysed	3																						
Municipal entities qualified	3																						

Municipal entity	1	3	2	2	3	3	1	2	2	2	3	2	0	3	3	3	2						
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AUDIT QUALIFICATIONS

Municipal entities	33%	100%	67%	67%	100%	33%	67%	67%	100%	67%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
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OTHER MATTERS

Municipal entities	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
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ANNEXURE 1.4: FREE STATE MUNICIPAL ENTITIES – GOOD PRACTICES

No.	Municipality	Municipality under which municipal entity falls	Audit opinion: 2007-08	Audit opinion: 2006-07	Clear trail of supporting documentation that is easily available and provided	Quality of financial statements and management information	Timeliness of financial statements and management information	Availability of key officials during audits	Development of and compliance with risk management and good internal control and governance practices	Leadership / supervision / monitoring
1	Centec (Pty) Ltd	Mangungu	Disclaimer	Disclaimer			1			
2	Lejweleputswa Development Agency	Lejweleputswa	Adverse	Adverse				1		
3	Maluti-A-Phofung Water	Maluti-A-Phofung	Disclaimer	Disclaimer				1		

SUMMARY

Totals	
Municipal entities existing	4
Municipal entities analysed	3
Municipal entities qualified	3

Municipal entity	0	0	1	2	0	0
GOOD PRACTICES	0%	0%	33%	67%	0%	0%
Municipal entities						



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ANNEXURE 2: SUMMARY OF AUDIT REPORTS ON FREE STATE MUNICIPALITIES

1. FEZILE DABI DISTRICT MUNICIPALITY

Financially unqualified (with other matters)

Emphasis of matters

- Highlighting critically important matters presented or disclosed in the financial statements
 - Unauthorised and irregular expenditure
 - Unauthorised expenditure was incurred as a vote was overspent.
 - Irregular expenditure occurred as a result of non-compliance with the supply chain management policy.
- Restatement of corresponding figures
 - Corresponding figures were restated as a result of errors discovered during prior years.

Other matters

- Non-compliance with applicable legislation
 - Municipal Finance Management Act
 - Municipal Systems Act
- Matters of governance
 - The annual report was not submitted to the auditor for consideration prior to the date of the auditor's report.
 - The financial statements submitted for auditing were subject to material amendments resulting from the audit.
 - Significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.

Other reporting responsibilities

- The role of the community in the performance management system was not defined.
- The council did not adopt a single, inclusive and strategic plan for the development of the municipality.
- The integrated development plan (IDP) did not include key performance indicators and performance targets.
- The municipality did not set key performance indicators, performance targets, input and output targets for each of the development priorities and objectives contained in the IDP.
- The performance report of the municipality for the year under review did not include key performance indicators.
- The consistency of development priorities as contained in the IDP, the budget and the annual performance report could not be confirmed.
- The mid-year budget and performance assessment report did not include an evaluation of the municipality's performance in terms of service delivery.



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- The service delivery and budget implementation plan adopted by the municipality did not include service delivery targets against which actual service delivery could be measured.
- The annual performance agreements of the municipal manager and senior managers were not linked to the measurable performance objectives approved.

2. METSIMAHOLO LOCAL MUNICIPALITY

Disclaimer of audit opinion

- Property, plant and equipment
The fixed asset register did not contain information to identify assets separately and no asset register was prepared for infrastructure assets.
- Long-term receivables
An overstatement of long-term receivables and non-current liabilities occurred owing to a provision for the impairment of receivables being included in accounts payable and not set off against long-term receivables.
- Accounts receivable
 - The valuation of consumer debtors raised concerns, as consumer debtors represented amounts that should have been provided for as a provision for doubtful debts.
 - A shortfall between the general ledger and the debtors age analysis was found.
 - The debtors ageing as disclosed reflected current consumer debtors, which materially differed from the average monthly municipality levies on property rates and service charges.
- Revenue
Sufficient appropriate audit evidence could not be obtained as to the completeness, accuracy and occurrence of revenue owing to the following:
 - The amount disclosed for water and electricity sales differed from the water sales according to the municipality's sales system.
 - Inter-departmental sales had not been eliminated in the financial statements.
- Irregular expenditure
No evidence could be provided to indicate that quotations, tenders and bids had been evaluated formally.
- Accounts payable
Appropriate audit evidence as to the existence, completeness and valuation of trade and other payables as disclosed could not be obtained.
- Employee-related costs
No provision was made for long-term service awards in terms of the policy.
- Accumulated surplus
No explanation could be provided for an adjustment in which the value-added tax (VAT) liability was debited and accumulated surplus was credited.



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- **Fruitless and wasteful expenditure**
Expenses were incurred that met the definition of fruitless and wasteful expenditure.
- **Related parties**
Unexplained related party transactions additional to the amount disclosed were identified.
- **Commitments and contingencies**
 - Independent attorney's confirmation could not be obtained to confirm the contingent liabilities as disclosed.
 - No effective procedures were in place to ensure that all the municipality's capital commitments had been identified and disclosed.
- **Cash flow statement**
The cash flow statement did not fairly reflect the results of the municipality's cash flows.
- **Risk management**
The current disclosure of credit and liquidity risk was inadequate and incorrect.
- **Disclosure of non-compliance with legislation**
The financial statements did not disclose particulars of non-compliance with the MFMA.
- **Going concern**
The municipality might be in a worse financial position than the position reflected in the annual financial statements.

Emphasis of matters

- **Basis of accounting (departures and deviations)**
The National Treasury approved a deviation from the basis of accounting applicable to the municipality.

Other matters

- **Non-compliance with applicable legislation**
 - Municipal Finance Management Act
 - Municipal Systems Act
 - Unemployment Insurance Fund Act
 - Division of Revenue Act
- **Matters of governance**
 - The annual report was not submitted to the auditor for consideration prior to the date of the auditor's report.
 - The financial statements submitted for audit purposes were subject to material amendments resulting from the audit.
 - Significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.
 - The prior year's external audit findings were not substantially addressed.
 - The municipality did not substantially comply with the implementation plan detailing its progress towards full compliance with GRAP.



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Other reporting responsibilities

- No evidence could be obtained of quarterly reports having been prepared.
- The audit committee did not review the municipality's performance management system.
- The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurements.
- No documented policies and procedures were developed to guide, direct and manage the processes to be followed by officials in order to achieve the set objectives.
- There was no clear link between the development priorities and objectives per the budget.
- No evidence was submitted to identify measurable performance targets for key performance areas.
- The performance information report was not submitted for evaluation as part of the audit process.

3. MOQHAKA LOCAL MUNICIPALITY

Disclaimer of audit opinion

- Net assets
 - The balance on certain funds had been transferred to the incorrect account.
 - The method of financing items of property, plant and equipment purchased, and the carrying value of property, plant and equipment financed by government grants could not be determined.
 - The amount of the accumulated deficit was incorrectly recorded and did not agree with the comparative deficit.
 - Sufficient appropriate audit evidence could not be obtained to substantiate the accuracy of funeral assistance and other payables.
- Property, plant and equipment
 - The fixed asset register was incomplete and did not contain information to confirm depreciation, carrying value and condition of the fixed assets.
 - Property, plant and equipment were not accurately valued and completely accounted for.
- Employee-related costs
 - Employee files and signed employment contracts could not be presented.
 - The existence of employees could not be physically verified.
- Receivables
 - Sufficient appropriate audit evidence could not be obtained on the valuation of consumer receivables.
 - No supporting documentation could be obtained for journals.
 - Consumer debtors and other debtors were not accurately valued and completely accounted for.
- Revenue
 - Sufficient appropriate audit evidence as to the completeness and accuracy of prior year figures for assessment rates levied, rental income and interest charged for outstanding debtor accounts could not be obtained.
 - The municipality did not maintain a direct income register.
 - Sufficient appropriate audit evidence could not be presented as to the accuracy and completeness of rental of facilities and equipment revenue.



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- Contrary to requirements, internally generated income and expenditure were not eliminated with the preparation of the financial statements.
- Amounts of R10 994 877 in the current year and R10 860 836 in the previous year relating to assessment rates were erroneously deducted from general expenses.
- Payables
 - Sufficient appropriate audit evidence could not be presented on the valuation and existence of payments received in advance, other payables, unallocated amounts and accumulated leave provision.
 - Suspense accounts were not cleared regularly.
 - Indigent receivables written off were included in the current and corresponding figure of other payables.
- Expenditure
 - Tender documents could not be provided in the previous year.
 - No supporting documentation could be presented for system-generated journals of credit card payments.
- Value-added tax
Audit assurance as to the existence, valuation and completeness of VAT payable could not be obtained.
- Unspent conditional grants and receipts
 - Paragraph 43(c) of the Statement 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 restrictions associated with the grant. Unspent conditional grants and receipts, as well as government grants and subsidies revenue, were not accurate and completely accounted for.
 - Municipal infrastructure grant funds were used to pay municipal salaries, other than those of the project management unit, and for the payment of creditors.
- Inventory
 - Weaknesses and differences were identified in the physical verification of inventory.
 - No proof of authorisation could be presented for inventory journals.
 - The municipality did not consider the net realisable value of inventory in arriving at the year-end balance.
- Irregular expenditure
Payments did not comply with the requirements of the municipality's supply chain management policy.
- Fruitless and wasteful expenditure
 - Payments made in respect of a tourism event were considered to have been made in vain and were not disclosed.
 - The original copies of the supporting documentation for fruitless and wasteful payments had been removed from the municipality's safe.



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- **Unauthorised expenditure**
A net saving was realised on the expenditure budget. However, expenditure was included in unallocated amounts.
- **Capital commitments**
Not all projects were considered in determining the capital commitment balance at year-end.
- **Cash flow statement**
The sum of the cash flows from operating, investment and financing activities exceeded the net decrease in cash and cash equivalents of the comparative cash flow statement.
- **Financial instruments**
The financial instruments were not disclosed in terms of GAAP, which requires detailed financial risk analysis and disclosure.
- **Disclosure of implementation plan of accounting standards**
The implementation plan for applying exemptions was not included in the financial statements as required.

Emphasis of matters

- **Going concern**
Various matters pointed to the existence of a material uncertainty that might cast significant doubt on the municipality's ability to continue as a going concern.
- **Highlighting critically important matters presented or disclosed in the financial statements**
The municipality did not record all prior period errors in line with the exemptions granted.
- **Irregular expenditure**
Irregular expenditure was incurred in the current and previous year as the proper supply chain management processes had not been followed.
- **Fruitless and wasteful expenditure**
Fruitless and wasteful expenditure was incurred in previous years.

Other matters

- **Non-compliance with applicable legislation**
 - Municipal Finance Management Act
 - Division of Revenue Act
- **Matters of governance**
 - The audit committee did not substantially fulfil its responsibilities for the year.
 - The municipality did not have an internal audit unit in operation throughout the financial year.
 - The annual report was not submitted to the auditor for consideration prior to the date of the auditor's report.



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- The financial statements submitted for audit were subject to material amendments resulting from the audit.
 - Significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.
 - The prior year's external audit findings had not been substantially addressed.
 - The PROPAC resolutions had not been substantially implemented.
 - The municipality did not submit an implementation plan, detailing progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 30 October 2007.
 - The municipality did not submit an implementation plan, detailing further progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 31 March 2008.
- Other reporting responsibilities
 - The annual performance report was not submitted for audit purposes.
 - The municipality did not set appropriate key performance indicators.
 - The annual budget was not based on the development priorities and objectives.
 - No quarterly reports on progress made in achieving measurable objectives and targets were prepared.
 - Evidence that the audit committee reviewed the performance management system could not be obtained.

4. NGWATHE LOCAL MUNICIPALITY

Disclaimer of audit opinion

- Creditors
 - The existence, completeness and valuation of creditors balances could not be confirmed owing to a lack of supporting evidence.
 - Suspense accounts were not cleared.
- Fixed assets
 - A fixed asset register was not maintained.
 - Capital expenditure was not recorded in the accounting records of the municipality.
 - Appropriate documentation to support additions to fixed assets could not be provided.
- Sufficient appropriate audit evidence could not be provided for:
 - Retained income
 - Cash and bank
 - Revenue
 - Expenditure
 - VAT
 - Sundry debtors; age analysis
 - Contingent liabilities
 - Employee cost



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- Revenue
 - Meters had not been read for more than six months.
 - Erven sales were inappropriately classified.
 - No direct income registers were maintained.
- Unauthorised, fruitless and wasteful and irregular expenditure
 - The municipality did not disclose unauthorised, fruitless and wasteful and irregular expenditure.
- Value-added tax
 - VAT receivables were not correctly disclosed in the financial statements.
 - Input VAT amounting to R3 800 944 was not accounted for during the write-off of bad debts.
 - The balance reflected in the VAT control accounts differed from the balance due to SARS.
- Debtors
 - Consumer debtors disclosed water and electricity consumption overcharges, which were not rectified by management during the year.
 - Suspense accounts were not cleared at year-end.
 - The provision for bad debts was incorrectly calculated.
 - Sundry creditors amounting to R8 374 462 were incorrectly classified as debtors.
- Conditional grants and receipts
 - Conditional grants and receipts were not recognised in the income statement.
- Capital commitments
 - The municipality did not maintain a contract register for the current and prior financial years.
- Provisions
 - The accumulated leave days were not adhered to during the previous financial year, resulting in the provision for leave being overstated.

Emphasis of matters

- Going concern
 - Various matters point to the existence of a material uncertainty that may cast significant doubt on the municipality's ability to continue as a going concern.
- Restatement of corresponding figures
 - Material differences existed between the comparative amounts.

Other matters

- Non-compliance with applicable legislation
 - Municipal Finance Management Act: Matters of non-compliance included credit accounts not being settled within 30 days, the bank overdraft not being approved as required, stakeholders not being informed of unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality, quarterly reports were not submitted within the time frame required and no evidence



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could be obtained that the mayor promptly responded to and initiated any corrective steps to deal with the cash flow problems.

- Municipal Systems Act: Matters of non-compliance included lack of monitoring and evaluation of employee performance and the lack of policy frameworks for the financial transactions and events related to several important business processes.
- Matters of governance
 - The audit committee did not substantially fulfil its responsibilities for the year.
 - The internal audit unit did not operate in terms of an approved internal audit plan and did not substantially fulfil its responsibilities for the year.
 - The financial statements submitted for audit were subject to material amendments.
 - Significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.
 - The prior year's external audit findings were not substantially addressed.
 - The Provincial SCOPA resolutions had not been substantially implemented.
- Other reporting responsibilities
 - The content of the IDP and strategic plan was not complete.
 - A performance audit committee did not exist.
 - Mechanisms, systems and processes for auditing the results of performance measurement were not developed.
 - Measurable objectives were materially inconsistent with the measurable objectives in the strategic plan.
 - Lack of sufficient appropriate audit evidence in relation to the performance information.
 - The system used for generating performance information was not adequate.

5. LEJWELEPUTSWA DISTRICT MUNICIPALITY

Qualification

- Property, plant and equipment
Owing to inadequate descriptions contained in the asset register, adequate audit assurance could not be obtained as to the existence of assets.

Emphasis of matters

- Unauthorised and irregular expenditure
 - Irregular expenditure was incurred due to supply chain procedures not being followed for incorrect expenditure.
 - Unauthorised expenditure was incurred due to the overspending of the approved capital budget.

Other matters

- Non-compliance with applicable legislation
 - Municipal Finance Management Act
 - Municipal Systems Act



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- Matters of governance
 - The audit committee did not operate in accordance with approved, written terms of reference.
 - The audit committee did not substantially fulfil its responsibilities for the year.
 - The internal audit unit did not operate in terms of an approved internal audit plan.
 - The internal audit unit did not substantially fulfil its responsibilities for the year.
 - The financial statements submitted for audit were subject to material amendments resulting from the audit.
 - The PROPAC resolutions had not been substantially implemented.
 - The municipality did not submit an implementation plan, detailing further progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 31 March 2008.

Other reporting responsibilities

- The key performance indicators did not include all general key performance indicators applicable to the municipality.
- The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal auditing processes.
- A functioning performance audit committee did not exist.
- Evidence could not be obtained that the mid-year budget and performance of the municipal entity under its control was assessed.
- The municipality did not report on all predetermined objectives.
- The actual achievement of all indicators and targets could not be substantiated by adequate evidence and source documentation.

6. MASILONYANA LOCAL MUNICIPALITY

Disclaimer of audit opinion

- Driver of audit opinion

The main driver of the disclaimer of audit opinion was the non-submission of supporting documentation for certain amounts relating to cash and bank, property, plant and equipment, receivables, expenditure, debtors, creditors, VAT, investments, accumulated deficit and capital commitments.
- Cash and bank

The bank overdraft as disclosed is understated when compared to the bank reconciliation. Bank reconciliations were not performed timeously after month-end.
- Property, plant and equipment
 - Management did not perform a fixed asset count at year-end and the fixed asset records of the municipality did not contain sufficient appropriate information.
 - An unexplained difference was found between the net assets and the long-term liabilities outstanding.
 - Gross assets were overstated due to items capitalised that did not meet the definition of an asset.



AUDITOR - GENERAL
SOUTH AFRICA

- Income
 - Service levies: Dates of final meter readings were not recorded and calculations for journals processed could not be provided.
 - Assessment rates: The official valuation roll was not reconciled to the financial accounting system; not all properties were included on the valuation roll and the valuation roll was not implemented.
 - Other income: Sufficient appropriate audit evidence in support of lease agreements and income received from traffic fines could not be submitted.
 - No interest was levied on overdue service debtors.
 - Daily deposits were not reviewed.
- Expenditure

Applications of consumers registered as indigent were not properly completed.
- Employee cost
 - Various shortcomings were identified with regard to the leave administration system.
 - Allowances were paid to employees without a formal policy in respect thereof.
- Debtors
 - A difference was identified between the ledger and sub-ledger.
 - The provision for bad debts was insufficient.
 - Debtors and income were overstated due to incorrect water and electricity levies before year-end.
- Funds and reserves

No council approval could be submitted for the writing off of trust funds.
- Long-term liabilities

Capital repayments differed between external confirmations and the amount disclosed.
- Cash flow statement

Differences were identified between the movements on debtors, creditors and long-term loans as per the balance sheet and the amounts as disclosed in the cash flow statement.
- Unauthorised, fruitless and wasteful and irregular expenditure

The municipality did not disclose unauthorised, fruitless and wasteful and irregular expenditure.

Emphasis of matters

- Going concern

Various matters point to the existence of a material uncertainty that may cast significant doubt on the municipality's ability to continue as a going concern.

Other matters

- Non-compliance with applicable legislation
 - Municipal Finance Management Act
 - Municipal Systems Act
 - Division of Revenue Act



AUDITOR - GENERAL
SOUTH AFRICA

- Matters of governance
 - The audit committee did not substantially fulfil its responsibilities for the year.
 - The internal audit unit did not substantially fulfil its responsibilities for the year.
 - Significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.
 - The prior year's external audit findings were not substantially addressed.
 - Provincial SCOPA resolutions had not been substantially implemented.
- Other reporting responsibilities
 - No reporting of performance information.
 - The IDP did not include the key performance indicators and performance targets.
 - The IDP did not reflect a financial plan.
 - No proof could be provided that the municipal council had reviewed its IDP annually.
 - No evidence could be provided that the municipality had a performance management system framework.
 - The municipality did not set measurable performance targets with regard to each of its development priorities and objectives.
 - The municipality did not develop a service delivery and budget implementation plan.
 - The municipality did not establish a process of regular reporting to the council.

7. MATJHABENG LOCAL MUNICIPALITY

Disclaimer of audit opinion

- Driver of audit opinion

The main driver of the disclaimer of audit opinion was the non-submission of supporting documentation for certain amounts relating to property, plant and equipment, consumer and other debtors, trade and other payables, accumulated surpluses, expenditure, revenue, interest-bearing borrowings and provisions.
- Consumer and other debtors
 - Contrary to the requirements of GRAP 1, internally charged consumer debtors were recognised in the financial statements of the municipality.
 - Service charges relating to the period between the last meter reading date and the financial year-end date were not accounted for.
 - Differences between the line items disclosed in note 10 and the general ledger could not be adequately substantiated by management.
 - The municipality did not subsequently measure consumer debtors at amortised cost using the effective interest rate method as required by IAS 39.
 - An overstatement with regard to the corresponding balance of sundry debtors was not corrected, resulting in an overstatement of the disclosed balance.
 - Supporting documentation for journals processed relating to the provision for doubtful debt could not be submitted for audit purposes.
- Trade and other payables
 - Trade and other payables were not subsequently measured at amortised cost using the effective interest method.



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- Adequate audit assurance could not be obtained for consumer debtors who had made payments in advance (included in other payables).
 - The municipality did not account for retention money in their financial records.
 - Trade and other payables and expenditure were overstated due to the incorrect classification of balances in the financial statements.
 - A difference between the corresponding balance of staff leave pay provision disclosed and the financial statements could not be explained.
 - A difference between the VAT balance disclosed and the VAT return at year-end could not be explained.
 - VAT was not taken into account regarding unallocated deposits written off in prior financial years – this matter had not been rectified.
- Expenditure
 - Internal charges were recognised in the financial records of the municipality, resulting in an overstatement of expenditure and service charges income.
 - The system of control over the classification and recording of expenditure transactions was found to be inadequate, with various misallocations and incorrect recording of transactions.
 - The accrual basis of accounting was not consistently applied, resulting in expenditure items being recorded in the incorrect financial periods.
 - Revenue
 - Incorrect classification of transactions relating to the sale of land resulted in an overstatement of rental income and understatement of income from the sale of land.
 - The process used by management to make estimates was found to be inadequate and revenue from spot fines and summons was not recognised based on past experience.
 - A difference between the external confirmations and the amount recognised for grants received could not be explained.
 - An incorrect allocation of a journal on the accounting system resulted in an understatement of agency fees and overstatement of other income.
 - Inventory

The municipality did not have a system of control over the recording of inventory items and also did not account for water inventories and vacant residential sites at year-end.
 - Bank balances and cash

Limited cessions on the deposits were not disclosed and a difference between the cash book balance at the beginning of the year and the reconciliation for the market account could not be explained.
 - Commitments

Not all contractual commitments were disclosed and lease commitments were also overstated.
 - Employee benefits

Narrative disclosure was not made regarding the liability at year-end.
 - Related parties

Not all related party relationships and transactions were disclosed.



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- **Cash flow statement**
Differences between the amounts disclosed in the cash flow statement and the amounts in the notes to the financial statements could not be explained.
- **Non-current loans and receivables**
The long-term portion of consumer debtors was not disclosed as non-current assets.
- **Leases**
The municipality did not comply with the disclosure requirements.
- **Government grant reserve**
The municipality did not comply with the accounting policy and consequently this grant was understated and accumulated surplus overstated.
- **Going concern**
The municipality incurred a net loss and the inability to recover debt impacted negatively on their cash flow.

Emphasis of matters

- **Basis of accounting (departures and deviations)**
The National Treasury approved a deviation from the basis of accounting applicable to the municipality.
- **Unauthorised, irregular or fruitless and wasteful expenditure**
As disclosed in the financial statements, the municipality incurred unauthorised, irregular and fruitless and wasteful expenditure during the year.

Other matters

- **Non-compliance with applicable legislation**
 - Municipal Finance Management Act
 - Municipal Systems Act
 - Municipal Structures Act
- **Matters of governance**
 - The financial statements submitted for audit were subject to material amendments resulting from the audit.
 - Significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.
 - The prior year's external audit findings were not substantially addressed.

Other reporting responsibilities

I was unable to obtain sufficient appropriate audit evidence in relation to performance information, as the system used for generating information was not adequate.



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8. TSWELOPELE LOCAL MUNICIPALITY

Financially unqualified (with other matters)

Other matters

- Non-compliance with applicable legislation
 - Municipal Finance Management Act
 - Environment Conservation Act
- Matters of governance
 - The audit committee did not operate throughout the financial year and was thus not operating in accordance with the approved terms of reference.
 - The internal audit unit did not operate in terms of the approved internal audit plan and did not substantially fulfil its responsibilities for the year under review.

Other reporting responsibilities

- The role of the community in the performance management system was not defined.
- The council did not adopt a single, inclusive and strategic plan for the development of the municipality.
- The mid-year budget and performance assessment report did not include an evaluation of the municipality's service delivery performance.
- The service delivery and budget implementation plan adopted by the municipality did not include service delivery targets against which actual service delivery could be measured.
- The annual performance agreements of the municipal manager and senior managers were not linked to the measurable performance objectives approved.

9. MANGAUNG LOCAL MUNICIPALITY

Disclaimer of audit opinion

- Property, plant and equipment
 - The fixed asset register did not contain information to separately identify assets.
 - No asset verification was performed during the year.
 - Revaluation of assets was not supported by supporting documentation.
 - Not all relevant assets had been accounted for in the fixed asset register.
 - Assets were recorded in the fixed asset register which did not conform to the definition of property, plant and equipment.
 - Assets were identified which had been duplicated on the fixed asset register.
 - Not all assets had been re-evaluated.
 - Significant components with different useful lives from those of the main assets had not been identified and depreciated separately.
- Long-term receivables

Long-term receivables were overstated, as no provision for the impairment was accounted for.



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- Accounts receivable
 - No provision for doubtful debts had been recognised on other receivables although there was objective evidence of impairment.
 - Suspense accounts were not cleared regularly.
 - Consumer debtors were not accurately valued and completely accounted for.
 - Centlec debtors accounts were incorrectly included in municipality's receivables.
 - No supporting documentation could be obtained for journals.
- Accumulated surplus
 - Assets, financed through reserves in the prior period, had not been deducted from the applicable reserves, resulting in an understatement of the accumulated surplus.
 - Not all adjustments of prior period errors were disclosed as prior period errors.
 - Transactions recorded in this account were not supported by sufficient supporting documentation.
 - Disposal of assets had been incorrectly recorded directly against the accumulated surplus.
- Non-current provisions

The municipality did not provide for the rehabilitation of certain landfill sites.
- Accounts payable
 - Accounts payable included amounts represented by receipts which had not yet been allocated, resulting in the overstatement of receivables and payables.
 - Not all amounts disclosed could be reconciled to the general ledger and trial balance.
- Revenue

Water service charges were overstated due to inaccurate opening estimates.
- Capital commitments

There were no effective procedures in place to ensure that all the municipality's capital commitments had been identified and disclosed.
- Irregular expenditure

Various irregular expenditures had been incurred due to non-compliance with the municipality's supply chain management policy and the MFMA.
- Municipal entity
 - No sale-of-business agreement or other supporting documentation could be obtained to confirm the profit on the sale of the electricity distribution department to Centlec.
 - The inter-entity accounts as disclosed in the municipality's financial statements could not be reconciled to the disclosures made in the entity's financial statements.
 - Advances were made to the entity without a formal agreement being in place to govern the interest rate and repayment terms.
 - Payments by the entity for services rendered by the municipality had been recorded by means of journals without tax invoices being issued or VAT being accounted for.
- Opening balances

The audit qualifications reported in the 2006-07 audit report had not been adequately resolved and the corresponding figures for the year ended 30 June 2008 were modified accordingly.



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Emphasis of matters

- Unauthorised and irregular expenditure
Irregular expenditure occurred as a result of non-compliance with the supply chain management policy and unauthorised expenditure was incurred, as a vote was overspent.
- Restatement of corresponding figures
Corresponding figures were restated as a result of errors discovered during the current year.

Other matters

- Non-compliance with applicable legislation
 - Municipal Finance Management Act
 - Municipal Systems Act
- Matters of governance
 - Internal audit and the audit committee did not substantially fulfil their responsibilities for the year.
 - The financial statements submitted for audit were subject to material amendments resulting from the audit.
 - Significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.
 - The prior year's external audit findings were not substantially addressed.
 - The PROPAC resolutions had not been substantially implemented.

Other reporting responsibilities

- Internal audit and the audit committee did not fulfil their responsibilities with regards to performance information for the year.
- No service delivery agreement was in place between the Mangaung Local Municipality and its municipal entity, Centlec.
- The council did not adopt a performance management plan for the municipality.
- Measurable objectives were materially inconsistent between the annual report and the IDP.
- Progress against measurable objectives in the IDP was not reported in the annual performance report.
- Objectives were reported in the annual report, but not predetermined as per IDP and/or budget.
- Performance report changes were not received in time, and not audited.

10. MANTSOPA LOCAL MUNICIPALITY

Qualification

- Cash and bank
 - An unreconciled difference existed between the cash book and the bank statement as at 30 June 2008.
 - Unallocated deposits represented debtors receipts not allocated to specific debtors accounts.
- Inventory
 - Differences were identified during the physical count of inventory.



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- No records were maintained to control the movement of inventory in and out of the stores.
 - No evidence could be submitted that regular inventory counts were conducted to identify obsolete and missing stock.
 - Supporting documentation to substantiate the value of the stock items could not be submitted.
 - Inventory was identified on the inventory sheets that was not valued, which resulted in inventory being understated.
- Consumer deposits
No monthly reconciliation was done between the deposit register and deposit control account.
 - Expenditure
Documentation to support certain expenditure transactions could not be submitted.
 - Creditors
I was unable to obtain sufficient appropriate audit evidence as to certain unallocated deposits.
 - Irregular expenditure
Irregular expenditure was not disclosed in the financial statements.

Other matters

- Non-compliance with applicable legislation
Municipal Finance Management Act
- Matters of governance
 - The internal audit unit did not substantially fulfil its responsibilities for the year.
 - The annual financial statements were not submitted for audit as per the legislated deadlines.
 - The prior year's external audit findings were not substantially addressed.
 - The Provincial SCOPA resolutions had not been substantially implemented.

Other reporting responsibilities

- The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement.
- A comparison of the performance of the municipality with targets set was not disclosed in the annual performance report.
- The measurable objectives reported in the annual report of the municipality were materially inconsistent when compared with the predetermined objectives as per IDP.
- Objectives were reported in the annual report of the municipality, although they were not included as predetermined objectives in the IDP.
- Sufficient and appropriate audit evidence in relation to the performance information of the municipality could not be submitted.



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11. MOTHEO DISTRICT MUNICIPALITY

Disclaimer of audit opinion

- **Expenditure**
Sufficient appropriate audit evidence could not be provided in respect of expenditure of a material amount.
- **Creditors**
 - Sufficient appropriate audit evidence could not be provided in respect of certain disclosed creditors balances of a material value.
 - The creditors disclosures made in the notes to the financial statements were not correctly categorised and not all material creditors were adequately disclosed.
 - Material cut-off errors made in the previous financial year had not been corrected in the current financial statements resulting in a follow-on effect to the 2007-08 year and materially misstating creditors, expenditure and the opening balance of the accumulated reserves.
- **Provisions**
Due to the unreliability of the district municipality's leave records it was not possible to confirm the leave provision that was disclosed in the financial statements.
- **Fixed assets**
Weaving plant with a material value was identified that was not included in the asset records or related financial statement disclosure.
- **Debtors**
Management was unable to provide sufficient appropriate audit evidence including any supporting documentation, reconciliation or explanation in respect of 41 debtors accounts with a material value as at the financial year-end.
- **Retirement benefits**
Due to the fact that management of the municipality as well as the auditors were unable to obtain any documentation in support of the retirement funds in which the district municipality participated, they were not able to update the disclosure made in the previous two financial years and I was consequently also not able to confirm what the correct disclosure should be.
- **Irregular expenditure**
Material irregular expenditure came to light as a result of the audit process that management had not accounted for in the financial statements of the district municipality.
- **Fruitless and wasteful expenditure**
Material fruitless and wasteful expenditure came to light as a result of the audit process that management had not accounted for in the financial statements of the district municipality.



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Emphasis of matters

- Unauthorised, irregular and fruitless and wasteful expenditure
The attention of the reader of the report was focused on the material unauthorised, irregular and fruitless and wasteful expenditure that management did disclose in the notes to the financial statements. This disclosure did not include the items reported under the disclaimer of opinion.

Other matters

- Non-compliance with applicable legislation
 - Municipal Finance Management Act
 - Municipal Systems Act
- Matters of governance
 - The district municipality did not have an audit committee in operation during the financial year under review.
 - The district municipality did not have an internal audit unit in operation for the entire financial year under review.
 - The financial statements submitted for audit were subject to material amendments resulting from the audit.
 - Significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.
 - The prior year's external audit findings were not substantially addressed.
 - The PROPAC resolutions had not been substantially implemented.
- Other reporting responsibilities
 - The district municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes.
 - I was unable to obtain sufficient appropriate audit evidence in relation to the performance information of the municipality, as the system used for generating information on the target of buckets eradicated and sewerage connections was not adequate for purposes of the evaluation.
 - The key performance indicators set by the municipality did not include all the general key performance indicators applicable to the municipality.

12. NALEDI LOCAL MUNICIPALITY

Disclaimer of audit opinion

- Fixed assets
 - The detailed fixed asset register did not agree with the summarised fixed asset register.
 - Existence of vehicles could not be confirmed.
 - Supporting documentation was not submitted to verify journals.
 - Supporting documentation could not be submitted for additions to the fixed asset register in previous and current financial years.
 - Explanations could not be given for differences between prior year closing and current year opening balances.

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- Supporting documentation could not be submitted for assets written off in previous and current financial years.
 - Differences between asset register and general ledger could not be explained.
 - Supporting documentation to verify the amount of individual assets could not be submitted.
 - Clinics were not transferred to the Department of Health as per council resolution.
 - Properties could not be confirmed as the asset register was incomplete and the correct values were not indicated in the register.
- Accumulated surplus
 - Supporting documentation could not be submitted for journals recorded against the accumulated surplus for the current and previous financial years.
 - Prior year corrections were only paid and corrected in the current year and were incorrectly rectified.
- Creditors
 - No explanations could be given for differences between prior year closing and current year opening balances.
 - Supporting documentation for journal entries could not be submitted.
 - Explanations/supporting documentation for grants and creditors as disclosed in the financial statements could not be provided.
 - Amounts disclosed in financial statements of the municipality did not agree with the confirmation of surplus/deficit from the electrical service provider.
- Personnel expenditure
 - Supporting documentation for journals recorded could not be submitted.
 - Supporting documentation could not be submitted to confirm expenses relating to employee-related cost.
 - Particulars of senior management were not disclosed in the notes to the financial statements.
 - Councillors' remuneration was not paid according to legislation and prior year errors were not corrected.
 - Notes to the financial statements were not disclosed according to MFMA requirements.
- Expenditure
 - Supporting documentation could not be submitted for journal entries.
 - Controls were not in place to ensure that transactions were correctly classified.
 - Prior year expenditure was incorrectly accounted for in the current financial year.
 - Loan agreements entered into by the electrical service provider could not be submitted to verify the long-term liabilities at the municipality.
 - Reconciliations were not performed between the expenditure and revenue recognised in the income statement.
- Debtors
 - Supporting documentation could not be submitted for journal entries.
 - Amounts recoverable from employees and service organisations were disclosed as prepayments in the financial statements.
 - Explanations for unknown debtors could not be obtained.



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- Interest on outstanding debtors was not levied for eleven months.
- Prior year issues were not corrected, resulting in several amounts incorrectly disclosed in the financial statements.
- No explanations could be given for differences between the general ledger and VAT.
- Notes to the financial statements did not include all information as required by the MFMA.
- Unauthorised and irregular expenditure
Unauthorised and irregular expenditure was not correctly disclosed.
- Revenue
 - Interest paid was disclosed as revenue instead of expenditure.
 - Supporting documentation and/or registers could not be submitted for journal and other revenue entries.
 - Documentation submitted for pre-paid electricity did not agree with amounts disclosed in the financial statements.
 - Amounts received from auctioneers were not correctly recorded.
- Long-term liabilities
Individual loan agreements for capital purchases made by the electrical service provider could not be submitted to verify long-term liabilities.
- Cash and cash equivalents
 - No proof could be submitted that the bank overdraft according to the electrical service provider's financial statements was disclosed in the municipality's financial statements.
 - As bank reconciliations were not done on a monthly basis, deposits indicated in the general ledger could not be confirmed.
 - Notes to the financial statements in respect of interest were not disclosed as required by the MFMA.
- Provisions
As the leave records of the municipality were not reliable, the provision for leave could not be confirmed.
- Leases
A finance lease was incorrectly disclosed in the 2007-08 financial year instead of the 2008-09 financial year.
- Inventory
Obsolete and redundant stock was not written off during the financial year, resulting in the overstatement of inventory.
- Commitments
Approved capital projects disclosed in the notes to the financial statements were not completely and accurately valued.
- Fruitless and wasteful expenditure
Fruitless and wasteful expenditure was incurred due to payment of salaries although the contract had expired. Further fruitless and wasteful expenditure relating to duplicate payments was incurred.



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- Budget deficit
Budget figures recorded in the financial statements did not agree to the approved adjusted budget.
- Cash flow statement
Comparative figures in the financial statements did not always agree with amounts disclosed.

Emphasis of matters

- Critically important matters
 - No reports that should have been submitted to the mayor and MEC could be submitted for irregular, fruitless and wasteful expenditure.
 - No disclosures were made regarding any criminal or disciplinary steps taken regarding note 19 to the financial statements.
- Material inconsistencies
Amounts disclosed in the CFO's report were inconsistent with amounts disclosed in the income statement and comparative figures.

Other matters

- Non-compliance with applicable legislation
 - Municipal Finance Management Act
 - Municipal Systems Act
 - Municipal Structures Act
 - Division of Revenue Act
- Matters of governance
 - The financial statements submitted for audit were subject to material amendments resulting from the audit.
 - Significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.
 - The prior year's external audit findings were not substantially addressed.
- Other reporting responsibilities
 - The municipality did not report performance against predetermined objectives.
 - Proof could not be submitted that quarterly reviews were performed and that the community was involved in the review process.
 - The IDP was not drawn up according to legislation. The plan was incomplete and the public was not informed 14 days before the adoption of the plan. There was no proof that the plan had been sent to the MEC 10 days after adoption.
 - The service delivery and budget implementation plan was not approved by the mayor as required.
 - No priorities and objectives were included in the budget.
 - No performance audit committee was in place.



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13. DIHLABENG LOCAL MUNICIPALITY

Disclaimer of audit opinion

- Fixed assets
 - The fixed asset register was not detailed enough and audit assurance could not be obtained as to the municipality's rights to, and the existence and valuation of, gross fixed assets and various assets could not be located in the asset register.
 - The municipality did not perform an asset count.
 - Supporting tender documentation could not be provided for certain payments.
 - All expenditure relating to the eradication of the bucket system for the last three years was capitalised to fixed assets but could not be regarded as an asset of the municipality, as the assets were mainly located on private properties.
- Creditors
 - Due to a lack of supporting evidence and proper reconciliations the existence and valuation of and the municipality's obligation towards other creditors could not be confirmed.
 - Payments after year-end, related to services and goods rendered or delivered before year-end, resulted in trade creditors and expenditure being understated.
 - Supporting documentation for journals could not be submitted in all instances and the completeness and valuation of VAT creditors could not be confirmed.
- Debtors
 - Supporting documentation for various debtors with credit balances could not be provided.
 - Due to inadequate provision made, the provision for bad debts was understated.
 - Sufficient appropriate audit evidence for the existence of various debtor accounts could not be provided.
 - The accuracy and completeness of indigents could not be confirmed owing to the lack of indigent application files.
- Retained income

No supporting documentation could be provided for journals accounted for against the appropriation account.
- Cash and bank

Supporting documentation for journals could not be submitted in all instances.
- Capital commitments

Sufficient supporting documentation for capital commitments could not be submitted.
- Inventory

Audit assurance could not be obtained as to the completeness of game stock due to the lack of a game stock counting certificate and an unbalanced game stock register.
- Employee cost

Due to the lack of time sheets or attendance registers, the accuracy of wage payments could not be confirmed.



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- Expenditure
Lease contracts could not be provided and the completeness of payments of debit orders as well as compliance with contract stipulations could not be verified.
- Fruitless and wasteful expenditure
 - This included amounts paid to unit managers for services not rendered.
 - Penalty interest was paid, mainly due to the late payments.
- Irregular expenditure
This included payments where procurement policies or supply chain management regulations were not adhered to.

Other matters

- Non-compliance with applicable legislation
Various instances of non-compliance with the MFMA were revealed.
- Matters of governance
The municipality did not have a functional audit committee.

Other reporting responsibilities

- The objectives reported in the report of performance information submitted by the municipality were materially inconsistent when compared with the predetermined objectives as per the budget, as the budget did not include any objectives.
- The measurable objectives reported in the annual report of the municipality were materially inconsistent when compared with the predetermined objectives as per the IDP.

14. MALUTI-A-PHOFUNG LOCAL MUNICIPALITY

Disclaimer of opinion

- Drivers of audit opinion
 - Sufficient appropriate audit evidence could not be obtained to confirm the balance disclosed in the financial statements and differences in the opening balances could not be explained for property, plant and equipment, receivables and payables.
 - Sufficient appropriate audit evidence could not be obtained for certain amounts relating to credit notes (expenditure), grants received (revenue), journals relating to accumulated surplus/deficit, investments, investment in associate and commitments.
- Expenditure
Documentation relating to expenditure incurred for website development costs could not be obtained due to a criminal investigation.
- Employee costs
Employee costs and councillors' remuneration were understated due to wrong allocations and unrecorded expenditure respectively.



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- Revenue
Property rate revenue was overstated due to overcharged accounts.
- Provisions
Provision for bonuses payable was understated.
- Leases
The capitalised lease liability for assets held was understated due to the liability not being recognised in the financial statements.
- Irregular expenditure
Councillors' remuneration for certain councillors exceeded the limits set and the resulting irregular expenditure was not disclosed in the financial statements.
- Fruitless and wasteful expenditure
VAT receivable by the municipality was not claimed and penalties and interest paid on late payment to SARS resulted in fruitless and wasteful expenditure that was not disclosed as required by section 125 of the MFMA.
- Unauthorised expenditure
The total expenditure exceeded the budgeted amount for the year.
- Basis of preparation
 - The basis of preparation of the financial statements did not comply with the prescribed basis.
 - The amount of cash generated from operating activities disclosed in the cash flow statement differed from the notes to the financial statements due to a number of misstatements.

Emphasis of matters

- Going concern
The municipality is exposed to serious financial problems due to recovery of debt and the potential negative effect of this on the cash flows of the municipality.

Other matters

- Non-compliance with applicable legislation
Municipal Finance Management Act
- Matters of governance
 - The municipality did not have a functioning audit committee during the year.
 - Significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.
 - The prior year's audit recommendations were not substantially implemented.



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Other reports

Two investigations by private firms were in progress at the municipality regarding expenditure and other aspects.

15. NKETOANA LOCAL MUNICIPALITY

Disclaimer of audit opinion

- **Property, plant and equipment**
Reliable records of fixed assets were not maintained to allow proper identification and verification of fixed assets and municipal property was not recorded in the fixed asset register.
- **Cash and cash equivalents**
Cash and cash equivalents were understated, owing to a lack of controls over the identification and clearing of unknown deposits and due to a lack of information it could not be determined whether the deposits represented income or receipts from debtors.
- **Payables**
Sufficient appropriate audit evidence could not be obtained as to the existence and valuation of and rights relating to unspent balances of grants and subsidies received and insurance receipts.
- **Receivables**
Owing to a lack of sufficient appropriate audit evidence and supporting documentation the existence and valuation of and rights relating to debtor balances could not be confirmed.
- **Accumulated surplus or deficit**
 - Owing to a lack of sufficient appropriate audit evidence the occurrence, accuracy and classification of transactions credited in the appropriation account could not be ascertained.
 - Although the trade creditors and expenditure that were incorrectly recognised during the previous financial year were corrected in the current year, the correction of expenditure was not accounted for in the appropriation account.
- **Revenue**
 - Unapproved electricity tariffs were used, resulting in revenue being overstated.
 - Appropriate audit evidence and records as to the completeness, occurrence, accuracy and classification of revenue in respect of rentals and traffic fines could not be obtained.
- **Irregular expenditure**
Due to lack of adherence to supply chain management regulations, irregular expenditure was incurred and was also not disclosed as irregular in the financial statements.
- **Contingent liabilities**
Owing to a lack of appropriate audit evidence the nature, extent and financial effect of contingent liabilities could not be determined.



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Emphasis of matters

- Irregular, fruitless and wasteful expenditure
Irregular, fruitless and wasteful expenditure was incurred during the financial year.

Other matters

- Non-compliance with applicable legislation
 - Municipal Finance Management Act
 - Municipal Systems Act
- Matters of governance
 - The municipality did not have an audit committee in operation throughout the financial year.
 - The internal audit unit did not operate in terms of an approved internal audit plan and did not substantially fulfil its responsibilities for the year.
 - The financial statements submitted for audit were subject to material amendments resulting from the audit.
 - The prior year's external audit findings were not substantially addressed.

Other reporting responsibilities

- No process was adopted setting out in writing guidance on the planning, drafting, adoption and review of the IDP.
- The local community was not afforded the opportunity to comment on the final draft of its IDP before adoption by the council.
- The public was not notified after the IDP was adopted and informed that copies of, or extracts from, the plan were available for public inspection.
- No forum was established to enhance community participation in the drafting and implementation of the IDP and the monitoring, measurement and review of the performance targets set by the municipality.
- The performance audit committee was not fully functional during the year.
- The municipality did not develop and implement a service delivery and budget implementation plan.
- The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement.
- The accounting officer did not compile a report on mid-year budget and performance assessments.
- The general key performance indicators were not included in the IDP.

16. SETSOTO LOCAL MUNICIPALITY

Qualification

- Consumer and other debtors
 - A difference between amounts allocated in the DoRA and the financial statements could not be resolved.
 - The municipality did not determine whether any evidence existed indicating that a financial asset or a group of financial assets had been impaired.



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- The municipality did not classify all financial instruments or disclosed information in the financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity was exposed at year-end.
- Provisions
The municipality did not calculate the present value of the future obligation to rehabilitate the municipal dumping sites and made no disclosures in the financial statements.
- Commitments
Sufficient appropriate audit evidence as to the existence, completeness and valuation of capital commitments could not be obtained in all instances.
- Inventory
I was unable to obtain sufficient appropriate audit evidence in respect of amendments made to the inventory balance in the stores trial balance and the general ledger owing to weaknesses identified in the municipality's year-end stocktaking processes.
- Unauthorised and irregular expenditure
 - The municipality omitted disclosure of irregular expenditure in respect of councillors' remuneration paid in excess of the maximum limits.
 - Expenditure of R2 599 032 was considered to be unauthorised as it was incurred in excess of the approved budget.
- Property, plant and equipment
Some municipal assets could not be verified through physical verifications in the current year.

Other matters

- Non-compliance with applicable legislation
 - Municipal Finance Management Act
 - Municipal Systems Act

Other reporting responsibilities

- Various outcome indicators, which formed the basis for the performance agreements, had no measurable objectives recorded.
- The IDP did not include the key performance indicators and performance targets determined in terms of its performance management system.
- The municipality did not report performance against predetermined objectives.

17. THABO MOFUTSANYANA DISTRICT MUNICIPALITY

Disclaimer of audit opinion

- Driver of audit opinion
The main driver of the disclaimer of audit opinion was the non-submission of supporting documentation relating to the line items for expenditure, receivables.



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- Expenditure
 - The municipality did not provide documentation to substantiate a huge number of expenditure and payment vouchers.
 - Appropriate supporting evidence in respect of journal entries could not be submitted.
 - It could also not be established whether all expenses incurred were authorised.
 - Expenditure as per the financial statements might not have been incurred and could also not be agreed to the general ledger.

- Receivables
 - Supporting documentation for a huge amount of levy debtors based on estimates could not be submitted. These levy debtors also differed fundamentally with the amount as per the general ledger.
 - The salary control account could not be agreed to the general ledger.
 - Arrears collected during the year were incorrectly classified as revenue.
 - Proof could not be obtained that debts collected by attorneys were handed over to the district municipality.
 - Expenditure was incorrectly classified as receivables.

- Fixed assets
 - An asset count was not performed and no updated asset register existed.
 - An insurance contract could not be submitted.
 - Fixed assets as per the financial statements did not correspond to the general ledger.
 - The asset register was not updated with the purchase of the mayoral vehicle to the value of R620 000.
 - Repairs and maintenance expenditure were incorrectly capitalised instead of expensed.

- Cash and bank
 - The completeness and classification of a huge amount of direct deposits could not be confirmed as the direct deposit register was incomplete.
 - Cash and bank as per the financial statements did not agree to the general ledger.
 - The cashbook as per the general ledger was not updated with transactions from 14 June 2008 to 30 June 2008.

- Revenue
 - The completeness and accuracy of revenue could not be verified
 - A material amount of receipts as per the general ledger could not be traced to the district municipality's bank statements.
 - Revenue disclosed in the financial statements could not be agreed to the general ledger.

- Creditors
 - Creditors were accrued at the incorrect amounts, resulting in a material understatement.
 - Creditor reconciliations were not performed.
 - A huge amount of creditors disclosed in the financial statements could not be agreed to the general ledger.
 - Expenditure was incorrectly classified as creditor payments.



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- Funds and reserves
Funds and reserves as per the financial statements did not agree to the general ledger.
- Provisions
Audit fee provisions as per the financial statements did not agree to the general ledger.
- VAT
 - The monthly VAT amounts as per the returns did not agree to the general ledger.
 - Monthly or year-end VAT reconciliations were not performed.
- Employee cost
 - Payments to employees and third parties differed materially from the information as per the salary system.
 - Salary interface reconciliations were not performed.
 - Salaries and allowances as per the financial statements differed from the general ledger.
- Accumulated surplus
The accumulated surplus as per the financial statements differed materially from the general ledger.
- Irregular expenditure
 - Remuneration packages for the executive mayor, the chief whip and mayoral committee members exceeded the remuneration packages as approved by council in the *Government Gazette No. 30600, dated 18 December 2007*.
 - Operating and capital expenditures were not authorised.
 - Processes followed in respect of a material amount of expenditure transactions were intended to avoid the tender process.
- Unauthorised expenditure
Unauthorised expenditure was incurred due to the overspending of the approved operating budget.
- Comparative figures
Comparative figures could not always be agreed to the prior year published annual financial statements.

Emphasis of matters

- Going concern
The municipality may be in a worse financial position than the position reflected in the annual financial statements.
- Highlighting critical important matters
The financial statements contained material errors that were brought to the attention of the accounting officer.



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Other matters

- Internal control
The municipality did not maintain effective, efficient and transparent systems of financial and risk management and internal controls and it also did not comply with applicable legislation, which gave rise to the inefficiencies in the system of internal control which led to the disclaimer of opinion.
- Non-compliance with applicable legislation
 - Municipal Finance Management Act
 - Value-added Tax Act
- Matters of governance
 - The audit committee did not operate in accordance with the approved written terms of reference and did not substantially fulfil its responsibilities.
 - The internal audit unit did not operate in terms of an approved internal audit plan and did not substantially fulfil its responsibilities.
 - Financial statements submitted for audit were subject to material amendments.
 - Significant difficulties were experienced due to the unavailability of senior management and the unavailability of information.
 - Corrective action on external audit findings was not implemented.
 - SCOPA resolutions were not implemented.

Other reporting responsibilities

- The service delivery budget implementation plan was not approved by council within the required time frame.
- The performance management system was not managed and formally approved by council.
- The approved IDP was not submitted to the MEC.
- Key performance indicators and performance targets were not included in the IDP.

18. KOPANONG LOCAL MUNICIPALITY

Disclaimer of audit opinion

- Fixed assets
 - Neither the municipality nor its electricity service provider maintained a reliable record of assets that allowed for the proper identification and verification of fixed assets.
 - No year-end fixed asset verification procedures were performed by the municipality in respect of electricity assets.
 - Due to significant weaknesses identified in the year-end fixed asset verification procedures performed by the municipality, I was unable to place any reliance on the results thereof.
 - Sufficient and appropriate supporting documentation could not be obtained in respect of fixed asset acquisitions.
 - Motor vehicles were not registered in the name of the municipality.
 - Contrary to the prescripts of the municipality's accounting policy, a significant number of fixed assets were disclosed at a value of either R1 or zero value, as the actual costs or fair value of the assets had not been determined.



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- Receivables
 - Adequate audit assurance as to the existence of receivables could not be obtained.
 - Sufficient appropriate audit evidence in respect of value-added tax receivables could not be obtained.
- Inventory

Due to significant weaknesses observed in the year-end inventory count processes and the absence of reliable inventory reconciliations, adequate audit assurance as to the valuation of consumable stores could not be obtained.
- Long-term liabilities

I was unable to obtain loan agreements in respect of long-term liabilities as disclosed in the financial statements.
- Provisions

In the absence of reliable leave records it was not possible to obtain adequate audit assurance as to the valuation of the provision for leave.
- Payables

Sufficient appropriate audit evidence in respect of payments, control accounts and payables could not be submitted.
- Expenditure

Lease agreements in support of rental expenditure could not be submitted.
- Revenue
 - Adequate audit assurance of assessment rates revenue amounting to R7 387 507 could not be obtained.
 - A complete list/register for rotating electricity meters could not be provided.
 - Sufficient appropriate audit evidence as to the occurrence, completeness and accuracy of rental income could not be obtained.
- Capital commitments

Sufficient audit evidence could not be obtained.

Emphasis of matters

- Unauthorised, irregular or fruitless and wasteful expenditure

As disclosed in the financial statements, the municipality incurred unauthorised, irregular and fruitless and wasteful expenditure during the year.

Other matters

- Non-compliance with applicable legislation
 - Municipal Finance Management Act
 - Municipal Systems Act



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- Matters of governance
 - The audit committee did not operate in accordance with approved, written terms of reference and did not substantially fulfil its responsibilities for the year.
 - The internal audit unit did not operate in terms of an approved internal audit plan and did not substantially fulfil its responsibilities for the year.
 - The financial statements submitted for audit were subject to material amendments resulting from the audit.
 - The PROPAC resolutions had not been substantially implemented.

Other reporting responsibilities

- No quarterly reports on progress made in achieving measurable objectives and targets were prepared.
- The municipality did not appoint and budget for a performance audit committee.
- The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal auditing processes.
- A report on mid-year budget and performance assessments could not be submitted.
- The key performance indicators did not include all general key performance indicators.
- I was unable to obtain sufficient appropriate audit evidence in relation to the performance information.
- Input, output, outcome indicators and targets were not set for development priorities and objectives in the IDP.
- A financial plan was not compiled for the municipality.
- The municipality did not report on all the predetermined objectives.

19. XHARIEP DISTRICT MUNICIPALITY

Disclaimer of audit opinion

- Fixed assets
 - A detailed asset register was not adequately kept.
 - A contract register was not kept.
- Cash on hand

The cash book amount as per the bank reconciliation did not agree to the general ledger and annual financial statements.
- Creditors

No supporting documentation could be obtained for the write-off of suspense accounts and the VAT account.
- Debtors

No supporting documentation could be obtained for the write-off of suspense accounts.
- Accumulated surplus / deficit

No supporting documentation could be obtained for appropriations.
- Provisions

No supporting documentation for leave calculations could be obtained.



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- Expenditure
 - Supporting documentation relating to certain general expenses in the current year and the prior year could not be obtained.
 - Supporting documentation for amounts included under salaries, wages and allowances could not be obtained.
- Income
 - Rental income could not be confirmed. The municipality was unable to submit a register for direct income received.
 - Interest and other income as per appendix C of the annual financial statements could not be confirmed. Included in the amount were various deposits as per the bank statements. No supporting documentation could be obtained to substantiate this amount.
 - Receipts could not be traced to a deposit slip or the bank statements.
 - Outstanding levy income in the prior year which should have been recorded against the appropriation account as a debtor was not created to estimate the levy income to be received when the levies were abolished on 30 June 2006. Income was therefore overstated and the appropriation account understated.
- Long-term debtors
 - The recoverability of prior period long-term debtors as per note 5 to the annual financial statements could not be confirmed, as long-term debtors with an outstanding balance of R387 667 had not serviced their debt in the prior year. The prior year net profit and accumulated deficit were therefore overstated and the provision for bad debts and expenditure were understated.

Emphasis of matters

- Going concern
Note 24 to the financial statements indicates that Xhariep District Municipality incurred a net loss for the year ended 30 June 2008.
- Irregular expenditure
Irregular expenditure was incurred due to proper procurement procedures which were not followed in terms of the supply chain management policy.
- Unauthorised expenditure
Unauthorised expenditure was incurred during the year under review.

Other matters

- Non-compliance
 - Municipal Finance Management Act
 - Municipal Systems Act
- Matters of governance
 - The municipality did not have an audit committee in operation throughout the financial year.
 - The municipality did not have an internal audit unit in operation throughout the financial year.



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- The annual financial statements were not submitted for audit as per the legislated deadlines.
- The financial statements submitted for audit were subject to material amendments resulting from the audit.
- Significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.
- The prior year's external audit findings were not substantially addressed.
- The Provincial PROPAC resolutions had not been substantially implemented.

Other reporting responsibilities

- The annual performance report of the municipality was not submitted for audit purposes.
- The IDP was in draft format.

20. CENTLEC (PTY) LTD

Disclaimer of opinion

- Revenue
 - Revenue was not recognised and disclosed at fair value, as required by IAS 18.
 - The accounting policy note 1.9.1, in respect of prepaid electricity sales, was not in accordance with SA GAAP.
 - A system calculation error resulted in an overstatement of revenue and receivables.
 - Electricity usage utilised in the calculation of electricity levied could not be agreed to meter-reading books; consequently, accuracy and occurrence could not be confirmed.
 - Cut-off for electricity revenue was incorrect, resulting in an understatement.
 - Revenue included free services recoverable.
 - The corresponding figure for prepaid electricity was overstated due to the reversal of a journal against the wrong account.
 - Sufficient, appropriate audit evidence could not be obtained to confirm the occurrence and accuracy of revenue, receivables and the inter-company loan account.
- Other operating income

Due to inappropriate accounting treatment of government grants, other operating income was overstated, VAT payable understated, deferred income understated and inter-company loan account overstated.
- Selling, general and administrative expenses

I could not be provided with sufficient appropriate audit evidence for expenditure.
- Net finance cost

Net finance cost was overstated and property, plant and equipment understated by an unknown amount, owing to the fact that borrowing costs were not capitalised against the underlying assets (as permitted by IAS 23 and required by accounting policy 1.2).
- Property, plant and equipment
 - No review of the residual values, useful lives and depreciation methods of assets / impairment assessment was performed, as required by SA GAAP, IAS 16.



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- Land and buildings were not revalued (in line with the entity's accounting policy).
 - Intangible assets were recognised as part of property, plant and equipment.
 - Property, plant and equipment funded through government grants as per note 2 to the financial statements, differed from the supporting documentation.
 - Assets under construction were not disclosed separately in the financial statements.
 - Assets could not be traced to the fixed asset register; the existence, valuation and the entity's rights could not be confirmed.
- Long-term receivables
Sufficient appropriate audit evidence was not available to confirm both the long-term and short-term portions of long-term receivables.
 - Inventory
The value of inventory was understated and repairs and maintenance was overstated, due to the control weaknesses identified during the year-end stock count.
 - Inter-company loan account
The inter-company loan account was not initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method as required by SA GAAP.
 - Receivables and prepayments
Sufficient appropriate audit evidence could not be obtained to confirm that accounts receivables and prepayments as presented in the financial statements had been fairly stated.
 - Accumulated surplus
The occurrence, accuracy and classification of expenditure transactions as incorporated in the accumulated surplus balance at 30 June 2006, could not be confirmed, due to a lack of supporting documentation.
 - Interest-bearing borrowings
 - There was no agreement in place in respect of the capital purchase loan that governed the applicable interest rate and repayment terms.
 - Interest-bearing borrowings were not initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.
 - The nature and extent of risks to which the entity is exposed resulting from this capital purchase loan account balance was not disclosed.
 - Shareholders loan
 - The valuation of the shareholders loan, accumulated surplus and the related electricity assets included in property, plant and equipment and the accuracy of finance costs as presented in the financial statements could not be confirmed due to the ambiguities in the sale-of-business (SOB) agreement.
 - Neither the initial nor subsequent measurement / disclosures with respect to this shareholders loan were accounted for in accordance with SA GAAP.



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- **Consumer deposits – services**
I could not confirm the obligations, existence and valuation of these deposits due to a lack of sufficient appropriate audit evidence.
- **Payables**
Due to a lack of sufficient appropriate audit evidence, we could not confirm whether or not trade and other payables as presented in note 12 to the financial statements were fairly stated.
- **Contingent liabilities**
Contingent liabilities were not disclosed in the financial statements.
- **Contingent assets**
Contingent assets were inappropriately disclosed, as assets had already been recognised in the inter-company loan account balance.
- **Capital commitments**
No disclosure with respect to the amount of contractual commitments for the acquisition of property, plant and equipment was made in the annual financial statements.
- **Financial assets and liabilities**
Financial assets and liabilities were not classified and disclosed in the financial statements in accordance with SA GAAP.
- **Related parties**
I was unable to quantify the misstatements regarding related-party transactions due to the material effect of scope limitations, identified misstatements and other issues of non-compliance with SA GAAP.
- **Cash flow statement**
I was not able to determine whether or not the cash flow statement and the related notes were fairly stated due to the material effect of scope limitations, identified misstatements and other issues of non-compliance with SA GAAP.
- **Other compulsory disclosures**
Material distribution losses totalling an estimated amount of R75 286 881 were not disclosed. The particulars of salaries, allowances and benefits of every senior manager's / executive's emolument were not disclosed in the notes to the financial statements.

Emphasis of matters

Restatement of corresponding figures

- Corresponding figures have been restated as a result of errors discovered during prior years.

Other matters

- Non-compliance with applicable legislation
 - Municipal Finance Management Act
 - Companies Act, 1973 (Act No. 61 of 1973)



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- Matters of governance
 - The municipal entity did not have an audit committee in operation throughout the financial year.
 - The municipal entity did not have an internal audit unit in operation throughout the financial year.
 - The financial statements submitted for audit were subject to material amendments resulting from the audit (misstatements identified were not corrected).
 - The prior year's external audit findings were not substantially addressed.

Reporting on performance information

Key performance objectives and measurement criteria were not agreed with the parent municipality; consequently no assessment was performed by the entity's accounting officer.

21. LEJWELEPUTSWA DEVELOPMENT AGENCY (PTY) LTD

Adverse opinion

- Trade and other payables
Adequate audit assurance could not be obtained as to the valuation of income tax of R166 755 payable to the South African Revenue Service, due to several discrepancies being reported during the 2005-06 financial year relating to grants, expenditure, provisions as well as trade and other payables that were incorrectly stated.
- Trade and other receivables
Although salary overpayments of R44 006 were to be recovered, the amount had not been recognised as a trade and other receivable.
- Provisions
The municipal entity did not register for VAT, as required by the Value-Added Tax Act, 1991 (Act No. 89 of 1991). The entity also did not make provision for the VAT liability of R316 886 pertaining to funds received from the Lejweleputswa District Municipality.
- Expenditure
 - Material prior period errors were not corrected retrospectively.
 - Supporting documentation for payments amounting to R21 110 could not be obtained.

Other matters

- Non-compliance with applicable legislation
 - Municipal Finance Management Act
 - Municipal Systems Act
 - Companies Act
- Matters of governance
 - The audit committee did not operate in accordance with approved, written terms of reference and did not substantially fulfil its responsibilities for the year.
 - The internal audit unit did not operate in terms of an approved internal audit plan and did not substantially fulfil its responsibilities for the year.



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- The annual financial statements were not submitted for audit as per the legislated deadlines.
- The financial statements submitted for audit were subject to material amendments resulting from the audit.
- Significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.
- The prior year's external audit findings were not substantially addressed.
- The PROPAC resolutions had not been substantially implemented.

Other reporting responsibilities

- The annual report did not include an assessment by the entity's accounting officer of the entity's performance against any measurable performance objectives set in terms of the service delivery agreement or other agreement between the entity and its parent municipality. A mid-year budget and performance assessment report could also not be submitted.
- The entity did not appoint and budget for a performance audit committee, neither was another audit committee utilised as the performance audit committee.
- The internal audit processes and procedures did not include assessments of the functionality of the performance management system of the entity and whether the system complied with the requirements of the MSA.

Other reports

- A forensic investigation was being conducted by an independent consultancy firm at the request of the entity. The scope of the investigation would address expenditure wrongfully paid to suppliers during the 2005-06 financial year. This investigation was still ongoing at the reporting date.

22. MALUTI-A-PHOFUNG WATER (PTY) LTD

Disclaimer of opinion

- Property, plant and equipment
Sufficient appropriate audit evidence could not be obtained to confirm the balance disclosed in the financial statements, mainly due to an incomplete asset register.
- Sufficient appropriate audit evidence could not be obtained in all instances to confirm the balances disclosed in the financial statements which affected the following items:
 - Receivables
 - Revenue
 - Inventory
 - Payables
 - Taxes
 - Provisions
 - Opening balances
- Expenditure
 - Sufficient appropriate audit evidence could not be obtained to confirm amounts relating to journals that affected operating expenditure, as well as documents supporting certain expenditure.



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- Expenditure was overstated by amounts that should have been classified as property, plant and equipment.
- Cash and cash equivalents
Outstanding payments were incorrectly recorded against the bank account.
- Contingent liabilities
 - Contingent liabilities relating to contracts entered into were understated due to an incorrect estimate used.
 - Contingent liabilities were overstated by an amount for future lease payments that were incorrectly included.
- Irregular expenditure
Irregular expenditure resulting from contravention of the supply chain management policy was not disclosed in the financial statements.

Other matters

- Non-compliance with applicable legislation
 - Municipal Finance Management Act
 - Companies Act
- Matters of governance
 - The entity did not have a functioning audit committee during the year.
 - The entity did not have a functioning internal audit unit during the year.
 - The financial statements were not submitted within the legislative deadlines.
 - Significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.
 - The prior year's audit findings were not substantially addressed.

Other reporting responsibilities

- The entity did not include an assessment of the entity's performance against measurable performance objectives set in the service delivery agreement with the parent municipality



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ANNEXURE 3: FREE STATE – SUMMARY OF OTHER AUDITS

3.1 Performance auditing

A performance audit is described as an independent auditing process to evaluate the measures instituted by management to ensure that resources have been procured economically and are used efficiently and effectively.

Performance auditing is concerned with the auditing of economy, efficiency and effectiveness and embraces:

- (a) auditing of the **economy** in relation to the acquisition of resources in the right quantity, of the right quality, at the right time and place at the lowest possible cost
- (b) auditing of the **efficiency** of utilisation of human, financial and other resources and the optimal relationship between the output of goods, services or other results and the resources used to produce them
- (c) auditing of the **effectiveness** of performance in relation to achievement of the policy objectives, operational goals and other intended effects of the audited entity.

Municipality	Theme	Expected date of tabling
Mangaung Local Municipality	Investment in infrastructure	November 2009

3.2 Special investigations

“Investigation” as contemplated in section 5(1)(d) of the PAA is defined as an independent and objective process where procedures are performed in accordance with guidelines issued by the AGSA to facilitate the investigation of financial misconduct, maladministration and impropriety, which may result in legal proceedings for adjudication and ensure probity in the accounts, financial statements and financial management of an institution referred to in section 4(1) and 4(3) of the PAA, and which may result in legal proceedings for adjudication. An investigation may be performed where the AGSA:

- (a) considers it to be in the public interest
- (b) receives a complaint relating to such institution or its affairs, or
- (c) receives a request relating to such institution or its affairs, and
- (d) deems it appropriate. This will result in a report (as contemplated in section 20 of the PAA) or a special report (as contemplated in section 29 of the PAA).

Municipality	Report description	Expected date of tabling
Mohokare Local Municipality	Possible irregularities in the CashFocus system	April 2009
Phumelela Local Municipality	Irregularities with the procurement process	September 2009



AUDITOR - GENERAL
SOUTH AFRICA

ANNEXURE 4: FREE STATE - PROJECT CONSOLIDATE

No.	Municipality	Capacity	Category (M,DM,LM)	District municipality under which municipality falls	Audit opinion 2007-08	Audit opinion 2006-07	Participation by the municipality in the programmes (Y/N)
1	Moqhaka	High capacity	LM	Fezile Dabi District	Disclaimer	Disclaimer	N
2	Matjhabeng	High capacity	LM	Lejweleputswa District	Disclaimer	Disclaimer	N
3	Tswelopele	Medium capacity	LM	Lejweleputswa District	Financially unqualified (with other matters)	Financially unqualified (with other matters)	N
4	Maluti-A-Phofung	High capacity	LM	Thabo Mofutsanyana District	Disclaimer	Disclaimer	N
5	Setsoho	Medium capacity	LM	Thabo Mofutsanyana District	Qualified	Qualified	N
6	Kopanong	Medium capacity	LM	Xhariep District	Disclaimer	Qualified	N
7	Mohokare	Low capacity	LM	Xhariep District	Disclaimer	Disclaimer	Y
8	Xhariep District	Low capacity	DM	Xhariep District	Disclaimer	Disclaimer	N
9	Naledi	Low capacity	LM	Motheo District	Disclaimer	Disclaimer	Y



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ANNEXURE 5: INTERNAL CONTROL – ROOT CAUSES

5.1 Introduction

ED ISA 210 defines internal control as “the process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity’s objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with any applicable legislation. Internal control assists management in fulfilling its responsibility for the preparation and presentation of the financial statements.” The entity’s objective with regard to the reliability of financial reporting includes the preparation and presentation of financial statements that are in accordance with the applicable financial reporting framework and free from material misstatement, whether due to fraud or error.

The AGSA identifies the root causes of matters reported in both the management and the audit report. The components of internal control that are to be used in this assessment, with the elements of each, are described below. Each of the five components should be considered in assessing the root causes of the audit findings reported.

CONTROL ENVIRONMENT

The control environment establishes the foundation for the internal control system by providing fundamental discipline and structure. The control environment has a pervasive effect on control consciousness and effectiveness within the entity.

The key elements are divided into hard controls and soft controls as follows:

Hard controls are missing or inadequate

- *Organisational structure* – The entity’s organisational structure does not address areas of responsibility and establish lines of reporting in order to support effective internal control over financial reporting.
- *Assignment of authority and responsibility* – Management and employees are not assigned appropriate levels of authority and responsibility to ensure that they understand how and for what they are accountable to facilitate effective internal control over financial reporting.
- *Human resources* – Human resource policies and practices have not been designed and are not implemented to facilitate effective recruitment, orientation, training, evaluation, compensation, disciplining and supervising of personnel.

There are confirmed instances of breakdowns in soft controls

- *Integrity and ethical values* – Sound integrity and ethical values, particularly of top management, have not been developed and are not understood in order to set the standard of conduct for financial reporting.
- *Participation by the accounting officer/authority* – The accounting officer/authority does not understand and exercise oversight responsibility relating to financial reporting and related internal control.
- *Management’s philosophy and operating style (tone at the top)* – Management’s philosophy and



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operating style, such as leading by example, independence and competence, do not support the achievement of effective internal control over financial reporting.

- *Financial reporting competencies* – The entity does not have individuals competent in financial reporting and related oversight roles.

RISK ASSESSMENT

This involves the identification and analysis by management of relevant risks to achieve predetermined objectives.

- *Identification of objectives* – Management has not specified the financial reporting objectives with sufficient clarity and criteria to enable the identification of risks to reliable financial reporting.
- *Risk identification* – The entity does not identify risks to the achievement of financial reporting objectives.
- *Risk evaluation* – The entity does not analyse risks in terms of the likelihood of occurrence, impact and priority.
- *Risk appetite and response* – The entity has not determined how the risks identified should be managed (risk strategy).
- *Fraud risk* – The potential for material misstatement due to fraud is not explicitly considered in assessing risks to the achievement of financial reporting objectives.

CONTROL ACTIVITIES

Control activities comprise the policies, procedures and practices that ensure that management objectives are achieved and risk mitigation strategies are carried out.

- *Financial* – Written procedures, authorisations, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation.
- *Information systems* – General, hardware and application controls have not been designed to ensure the reliability of the operating system, the accuracy of the data outputs, and the protection of equipment and files.
- *Operational* – Directive, preventive and detective controls are not adequate and focused on achieving efficient resource usage and effectiveness as measured by the extent to which specific control objectives are achieved.
- *Integration with risk assessment* – Actions are not taken to address risks to the achievement of financial reporting objectives.
- *Selection and development of control activities* – Control activities are not selected and developed with consideration of their cost and their potential effectiveness in mitigating risks to the achievement of financial reporting objectives.



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- *Policies and procedures* – Policies related to reliable financial reporting are not established and communicated throughout the entity, and do not have corresponding procedures that result in management directives being carried out.
- *Performance measurement and reward* – Realistic targets are not set for performance measurement and this is in turn not linked to an effective performance reward system.

INFORMATION AND COMMUNICATION

This aspect supports all other control components by communicating control responsibilities to employees and by providing information in a form and time frame that allow people to carry out their duties.

- *Financial reporting information* – Pertinent information is not identified, captured, used at all levels of the entity and distributed in a form and time frame that supports the achievement of financial reporting objectives.
- *Internal control information* – Information required to execute other control components is not identified, captured and distributed in a form and time frame that enable personnel to carry out their internal control responsibilities.
- *Internal communication* – Communication does not enable and support understanding and execution of internal control objectives, processes and individual responsibilities at all levels of the organisation (employees do not understand their control responsibilities).

MONITORING

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

- *Ongoing monitoring* – Ongoing monitoring and supervision are not undertaken to enable management to determine whether internal control over financial reporting is present and functioning.
- *Separate evaluations* – Separate evaluations, such as the consideration of the risks assessed, self-assessment processes, reviews by the internal audit unit and an effective audit committee, are not evident.
- *Reporting deficiencies* – Internal control deficiencies are not identified and communicated in a timely manner to those parties responsible for taking corrective action, and to management and the accounting officer/authority as appropriate.



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5.2 Internal control root causes linked to audit qualifications

Audit findings	Control environment	Control activities	Risk assessment	Information and communication	Monitoring
Cash, cash equivalents and investments	X	X	X	X	X
Receivables	X	X	X	X	X
Inventory	X	X	X		X
Capital assets	X	X	X	X	X
Payables and borrowings	X	X	X	X	X
Provisions, contingent liabilities and guarantees	X	X	X	X	X
Taxes and VAT	X	X	X		X
Grants, capital and reserves	X	X	X	X	
Presentation and disclosure	X	X	X	X	X
Revenue	X	X	X	X	X
Expenditure	X	X	X	X	X
Material losses	X	X	X	X	X
Other general issues	X	X	X	X	X



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ANNEXURE 6: PHASING-IN APPROACH FOR THE AUDITING OF PERFORMANCE INFORMATION

Phasing-in approach for the auditing of performance information

The AGSA has adopted a phasing-in approach for compliance with the relevant sections of the PAA until such time as a performance management and reporting framework has been legislated³ and the audited environment has reached a level of maturity so as to provide reasonable audit assurance in the form of an audit opinion or conclusion. It is anticipated that this maturity level will only be reached during the April 2009 to March 2010 financial year.

The phasing-in approach has the following advantages:

- The National Treasury has the time and opportunity to provide structure and discipline to the processes used by the management of public sector institutions to measure and report on performance information and to facilitate the implementation of the necessary systems.
- It will provide an appropriate level of assurance on the quality of reported performance information in each phase of the implementation.
- Seeing that the AGSA is committed to playing a constructive and, where appropriate, supportive role in order to assist the South African public service, it will provide ongoing advice and encouragement for continuous improvement in the quality, value and use of the information.
- The audit report will not be qualified in respect of performance information during the phasing-in approach (until the 2008-09 financial year) to provide management of the auditees with the opportunity to set up the necessary internal policies, structures, systems and processes to manage and report on performance information.

The details of the phasing-in approach are as follows:

1. The audit procedures for auditing the performance information of the **April 2005 to March 2006** financial year were indicated in *General Notice 544 of 2006*, issued per *Government Gazette 28723 of 10 April 2006* and *General Notice 808 of 2006*, issued per *Government Gazette 28954 of 23 June 2006*. The procedures included the following:
 - Obtain an understanding of the entity and its environment, including its internal control related to performance information.
 - Determine the level of performance reporting by **evaluating** the following aspects:
 - The existence of, and reporting against, predetermined objectives.
 - The existence of specific, measurable and time-bound objectives.
 - The consistency of reporting on predetermined objectives.
 - The format and presentation of the performance information in the annual report.

³ Although the National Treasury issued the *Framework for managing programme performance information* during May 2007, the legal status (i.e. compulsory/legally binding or only a guideline) has not been officially indicated by the National Treasury.



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No separate opinion on performance against predetermined objectives was included in the audit reports. Conclusions on performance reporting were reached as part of the financial audit process. Material shortcomings in the process of reporting against predetermined objectives that came to the attention of the auditor during the audits were reported in the *Emphasis of matter* section of the audit reports.

2. The audit procedures for auditing the performance information of the April 2006 to March 2007 financial year were indicated in General Notice 646 of 2007, issued per Government Gazette 29919 of 25 May 2007. The procedures included the following:

- Obtaining an understanding of the internal controls relating to performance information.
- Documenting system descriptions for the systems relevant to reporting on performance information. The system descriptions should be verified by means of walk-through tests.
- Determining the stage of performance reporting by evaluating the following:
 - The existence of, and reporting against, predetermined objectives.
 - The existence of specific, measurable and time bound objectives.
 - The consistency of the predetermined objectives recorded in the strategic plan, budget, quarterly reports and annual report.
 - The format and presentation of the performance information in the annual report.
- Comparing the reported achievement of performance against objectives to the information sources and conducting limited substantive procedures on the information.

No separate opinion on performance against predetermined objectives was included in the audit reports. Reporting in this regard formed part of the regularity audit process. Reporting related to material shortcomings in the process, systems and procedures of reporting against predetermined objectives that came to the attention of the auditor during the audit and that might impact on the public interest was contained in the *Other reporting responsibilities* section of the audit report.

3. The audit procedures for auditing the performance information of the April 2007 to March 2008 financial year are indicated in *General Notice 616 of 2008*, issued per *Government Gazette 31057 of 2008*. The procedures include the following:

- Obtaining an understanding of the internal policies, structures and processes relating to the management of, and reporting on, performance information.
- Obtaining an understanding of the relevant systems and internal controls to collect, monitor and report performance information.
- Evaluating the existence, consistency, format and quality of performance information.
- Comparing reported performance information to relevant source documentation and conducting limited substantive procedures to ensure valid, accurate and complete performance reporting.

No separate opinion on performance against predetermined objectives will be included in the audit reports. Reporting in this regard forms part of the regularity audit process. Reporting will be in relation to material shortcomings in the process, systems and procedures of reporting against predetermined objectives that come to the attention of the auditor during the audit and that may impact on the public interest. This reporting will be contained in the *Other reporting responsibilities* section of the audit report.



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4. The audit procedures for auditing the performance information of the **April 2008 to March 2009 financial year** will include all the details referred to above for the 2007-08 financial year with additional procedures focusing on the validity, accuracy and completeness of reported performance information.
5. As from the **April 2009 to March 2010 financial year** auditors should obtain sufficient appropriate audit evidence as part of a systematic audit process, including substantive procedures and testing the operational effectiveness of controls to a level of reasonable assurance.



AUDITOR - GENERAL
SOUTH AFRICA

ANNEXURE 7: AUDIT FEES OUTSTANDING

Amounts owing to the AGSA as at 28 February 2009

The following amounts were due and payable within 30 days of the date of invoice:

Municipalities and municipal entities	Total R
Dihlabeng Local Municipality	384 389
Kopanong Local Municipality	1 006 313
Lejweleputswa District Municipality	24 776
Letsemeng Local Municipality	989 910
Mafube Local Municipality	970 357
Maluti-A-Phofung Local Municipality	2 457 150
Maluti-A-Phofung Water (Pty) Ltd.	774 600
Mangaung Local Municipality	552 765
Mantsopa Local Municipality	394 186
Masilonyana Local Municipality	1 016 707
Matjhabeng Local Municipality	103 273
Metsimaholo Local Municipality	546 715
Mohokare Local Municipality	630 477
Moqhaka Local Municipality	109 251
Motheo District Municipality	26 793
Nala Local Municipality	51 404
Naledi Local Municipality	1 814 588
Ngwathe Local Municipality	1 873 905
Nketoana Local Municipality	265 590
Setsoto Local Municipality	1 086 240
Thabo Mofutsanyana District Municipality	605 888
Tokologo Local Municipality	93 875
Tswelopele Local Municipality	54 314
Xhariep District Municipality	776 879
	16 610 345

The municipalities not included were up to date with their payments to the AGSA.