

# REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND THE COUNCIL ON THE MAFUBE LOCAL MUNICIPALITY

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I was engaged to audit the financial statements of the Mafube Local Municipality set out on pages 6 to 76, which comprise the statement of financial position as at 30 June 2013, the statements of financial performance, changes in net assets, cash flows for the year then ended, a statement of comparison of budget and actual amounts and the notes, comprising a summary of significant accounting policies and other explanatory information.

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

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-general's responsibility

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

### Basis for disclaimer of opinion

#### Property, plant and equipment

4. I was unable to obtain sufficient appropriate audit evidence regarding property, plant and equipment due to lack of an adequate asset management system and a system to maintain the cost records of the assets. I was unable to confirm the assets by alternative means. Consequently, I was unable to determine whether any further adjustments to property, plant and equipment stated at R1 681 116 741 (2012: 1 770 341 205) in note 10 to the financial statements were necessary.
5. The municipality did not review the residual values and useful lives of infrastructure assets at each reporting date in accordance with Standard of Generally Recognised Accounting Practice, GRAP 17, *Property, plant and equipment*. Infrastructure assets with a gross carrying amount of R2 089 564 849 (2012: R2 089 564 849) are included in note 10 to the financial statements. I was not able to determine the correct net carrying amount of infrastructure assets as it was impracticable to do so.
6. The municipality did not capitalise all items of property, plant and equipment in accordance with Standard of Generally Recognised Accounting Practice, GRAP 17, *Property, plant and equipment*. Items of property, plant and equipment were incorrectly recognised as work in progress, projects were included at negative values and non-capital expenditure was included as work in progress. Consequently, infrastructure is understated by

R11 462 603, work in progress is overstated by R12 996 587 and general expenses is understated by R1 533 984. Additionally, there is a consequential impact on the deficit for the period and the accumulated surplus.

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

7. I was unable to obtain sufficient appropriate audit evidence about consumer receivables from exchange transactions as service contracts, indigent and arrangement applications could not be submitted. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine if any adjustment to consumer receivables from exchange transactions stated at a gross balance of R153 582 636 (2012: R120 864 418) in note 7 to the financial statements was necessary. In addition, the municipality did not adequately disclose each material class of similar items separately as required by Standard of Generally Recognised Account Practice, GRAP 1, *Presentation of financial statements* as consumer receivables from exchange transactions include an amount of R31 017 395 (2012: R23 861 077) disclosed as sundry consumer services.
8. I was unable to obtain sufficient appropriate evidence with regards the provision for debt impairment per category of consumer receivables from exchange transactions due to the fact that the provision per service category and consumer type has been apportioned pro rata in relation to the total gross provision for debt impairment. Consequently, I was unable to determine whether any further adjustments to provision for debt impairment stated at R118 325 381 (2012: R82 758 901) in the financial statements were necessary.

### **Irregular expenditure**

9. I was unable to obtain sufficient appropriate audit evidence regarding irregular expenditure as the municipality did not have adequate systems in place to identify and record all instances of irregular expenditure incurred. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any adjustments to the amount disclosed for irregular expenditure stated at R30 058 469 (2012: R29 024 434) in note 51 to the financial statements were necessary. In addition, the municipality did not include particulars of all the irregular expenditure incurred in the notes to the financial statements, as required by section 125(2)(d)(i) of the MFMA. The municipality made payments in contravention of the supply chain management (SCM) requirements which were not included in irregular expenditure, resulting in irregular expenditure being understated by R90 052 312 (2012: R27 065 229).

### **Unauthorised expenditure**

10. I was unable to obtain sufficient appropriate audit evidence about unauthorised expenditure during 2012. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any adjustment to unauthorised expenditure stated at R17 925 031 for 2012 in note 49 to the financial statements was necessary. My audit opinion on the financial statements for the period ended 30 June 2012 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures. In addition, the municipality did not include particulars of all the unauthorised expenditure incurred in the notes to the financial statements, as required by section 125(2)(d)(i) of the MFMA. The municipality incurred expenditure in excess of budgeted amounts which were not disclosed, resulting in unauthorised expenditure for the current period being understated by R159 534 678.

### **Accumulated surplus**

11. During 2012, I was unable to obtain sufficient appropriate audit evidence regarding various suspense accounts included under payables and receivables to the amount of R71 265 577 that were cleared to accumulated surplus. The municipality's system did not allow the performance of alternative procedures. My audit opinion on the financial statements for the period ended 30 June 2012 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

### **Investment Property**

12. Contrary to Standards of Generally Recognised Accounting Practice GRAP 3, *Accounting estimates, change in accounting estimates and errors*, the municipality did not recognise the correction of investment property valued at R45 628 985 as a prior period error, instead it was disclosed as a reclassification in the financial statements by debiting Investment property and crediting Infrastructure assets. In addition, the value of investment properties were not accurately determined in terms of Generally recognised Accounting Practice, GRAP 16, *Investment Property* as a number of investment properties have been recognised at zero value, the assumptions used in the investment property register have not been accurately applied in the determination of the deemed cost and adequate records of the assumptions used in the determination of deemed cost were not kept. I was not able to determine the full extent of the misstatement as it was impracticable to do so.

### **Revenue from service charges**

13. I was unable to obtain sufficient appropriate audit evidence regarding service charges as the municipality did not have adequate systems in place to maintain records of basic charges, service charges and record accurate meter readings. I was unable to confirm the service charges by alternative means. Consequently, I was unable to determine whether any adjustments to service charges stated at R43 222 421 (2012: R67 415 830) in the financial statements were necessary. The municipality did not recognise revenue from water service charges in accordance with SA Standards of GRAP, GRAP 9, *Revenue from exchange transactions*. The municipality did not have adequate systems in place to maintain records of basic charges, service charges and record accurate meter readings, which resulted in water service charges and Consumer receivables from exchange transactions being understated by R3 054 849, respectively. Additionally there is a consequential impact on the deficit for the period and accumulated surplus.

### **General expenses**

14. I was unable to obtain sufficient appropriate audit evidence for general expenses due to the absence of supporting records. I was unable to confirm general expenses by alternative means. Consequently I was unable to determine whether any further adjustment to general expenses stated at R34 349 443 (2012: R38 342 883) in the financial statements were necessary.

### **Fruitless and wasteful expenditure**

15. The municipality did not include particulars of all the fruitless and wasteful expenditure incurred in the notes to the financial statements, as required by section 125(2)(d)(i) of the MFMA. An amount of R17 727 744 was deducted from the balance of fruitless and wasteful expenditure in note 50 without proper investigations having been performed.

This resulted in an understatement of fruitless and wasteful expenditure by R17 727 744.

### **Revenue from property rates**

16. I was unable to obtain sufficient appropriate audit evidence about property rates due to an unsubstantiated difference between the chargeable rates per the valuation roll and the accounting records. I was unable to confirm the property rates by alternative means. Consequently, I was unable to determine whether any adjustments to property rates stated at R16 322 286 (2012: R19 167 186) in the financial statements were necessary. In addition, the municipality did not recognise Revenue from property rates in accordance with Standard of Recognised Accounting Practice, GRAP23, *Revenue from non-exchange transactions*. Inconsistencies were identified between the market value of properties per the valuation roll and the system on which billing is generated. Consequently, property rate income and consumer receivables from non-exchange transactions are understated by an amount of R7 816 103 (2012: R3 974 411 overstatement), respectively. Additionally, there is a consequential impact on the deficit for the period and accumulated surplus.

### **Commitments**

17. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for commitments. As described in note 41 to the financial statements, the restatement was made in order to rectify a prior year misstatement. I was unable to confirm the restatement by alternative means. Consequently I was unable to determine whether any adjustment to the corresponding figure for commitments stated at R19 755 896 in note 41 to the financial statements was necessary. In addition, the municipality did not record all contractual commitments for goods and services received in accordance with Standard of Generally Recognised Accounting Practice, GRAP1, *Presentation of Financial Statements* due to lack of an adequate contract management system. Consequently, commitments are understated by R15 885 690.

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

18. I was unable to obtain sufficient appropriate audit evidence about consumer receivables from non-exchange transactions as supporting documentation could not be provided. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine if any adjustment to consumer receivables from non-exchange transactions stated at a gross balance of R15 833 152 (2012: R12 845 529) in note 6 to the financial statements was necessary.
19. I was unable to obtain sufficient appropriate evidence about the provision for debt impairment of consumer receivables from non-exchange transactions due to the fact that the provision per service category and consumer type has been apportioned pro-rata in relation to the total gross provision for impairment. Consequently, I was unable to determine whether any further adjustments to the provision for debt impairment stated at R12 246 285 (2012: R9 137 307) in the financial statements were necessary.

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

20. I was unable to obtain sufficient appropriate audit evidence for the reclassification of receivables from exchange transactions of R15 816 818 that has been included in payables from exchange transactions in the prior year. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine if any

adjustment to receivables from exchange transactions stated at R2 070 855 in note 5 to the financial statements was necessary.

### **Repairs and maintenance**

21. I was unable to obtain sufficient appropriate audit evidence for Repairs and maintenance due to the absence of supporting records. I was unable to confirm Repairs and maintenance by alternative means. Consequently I was unable to determine whether any further adjustment to repairs and maintenance stated at R15 246 022 in the financial statements were necessary.

### **Employee benefits**

22. The municipality did not recognise the post retirement benefit in accordance with Standard of Generally Recognised Accounting Practice, GRAP 25, *Employee Benefits*, due to incorrect information being included in the calculation of the retirement benefit obligation as disclosed in note 19 to the financial statements. I was not able to determine the correct amount of the post retirement benefit obligation as it was impracticable to do so.

### **Bulk purchases**

23. I was unable to obtain sufficient appropriate audit evidence for Bulk purchases due to the absence of supporting records. I was unable to confirm Bulk purchases by alternative means. Consequently I was unable to determine whether any further adjustment to Bulk purchases stated at R9 168 910 in the financial statements were necessary.

### **Value- added tax (VAT)**

24. I was unable to obtain sufficient appropriate audit evidence regarding VAT payable due to inadequate record keeping by the municipality. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments relating to VAT payable stated at R7 628 085 (2012: R11 216 466) as disclosed in the financial statements was necessary.

### **Finance charges**

25. I was unable to obtain sufficient appropriate audit evidence for finance charges due to the absence of supporting records. I was unable to confirm finance charges by alternative means. Consequently I was unable to determine whether any further adjustment to finance charges stated at R7 278 597 in the financial statements were necessary.

### **Unspent conditional grants and receipts**

26. The municipality did not accurately roll forward the balance of unspent conditional Municipal Infrastructure Grants (MIG) from the prior year financial statements in accordance with the Standard of Generally Recognised Accounting Practice, GRAP 23, *Revenue from non- exchange transactions*. Where the municipality had spent its own funds before MIG allocations were received the amount receivable was not recognised. Consequently, unspent conditional grants is understated and grant expenditure (capital or operating) is overstated by R4 352 283, respectively. The municipality also did not have adequate processes in place to ensure that VAT has been correctly accounted for relating to unspent grants. Therefore unspent conditional grants have been overstated

and VAT understated by R484 307 for VAT that has been incorrectly been included in the balance.

### **Pension and medical aid**

27. I was unable to obtain sufficient appropriate evidence regarding the opening and closing balance of pension fund and medical aid deductions as disclosed in note 52 to the financial statements. I was unable to confirm the amount by alternative means. Consequently I was unable to determine whether any further adjustments to pension fund and medical aid deductions stated at R1 727 039 (2012: R4 304 599) in the financial statements were necessary.

### **Bank and cash**

28. During 2012 I was unable to obtain sufficient appropriate audit evidence about cash and cash equivalents reflected as R3 124 278 due to unreconciled deposits of R3 762 995 included in the bank reconciliation. I was unable to confirm the cash and cash equivalents by alternative means. Consequently I was unable to determine whether any adjustments to this amount were necessary. My audit opinion on the financial statements for the period ended 30 June 2012 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

### **Grants and subsidies paid**

29. The municipality did not correctly calculate Grants and subsidies paid relating to indigent debtors as required by Section 64(2)(f) of the MFMA. The indigent information contained on the billing system is inaccurate. Consequently, grants and subsidies paid are understated and receivables from exchange transactions overstated by R3 037 287, respectively. Additionally, there is a consequential impact on the deficit for the period and the accumulated surplus.

### **Other income**

30. I was unable to obtain sufficient appropriate audit evidence about other income due to a lack of proper processes to ensure that registers of all other income are maintained. I was unable to confirm the other income by alternative means. Consequently I was unable to determine whether any adjustments were necessary to other income stated at R2 244 696 (2012: R2 094 899) in note 29 to the financial statements. In addition, other income was not disclosed in accordance with Standard of Generally Recognised Accounting Practice, GRAP1, *Presentation of Financial Statements*. Other income received was not allocated to the correct sub- category included in note 29 to the financial statements. Consequently, other income has been incorrectly classified between the various sub- categories with R1 279 143. Included in other income are also sundry amounts of R1 533 478 (2012: R1 178 776) that have not been separately presented.

### **Intangible assets**

31. The municipality did not review the useful lives of intangible assets at each reporting date in accordance with Standard of Generally Recognised Accounting Practice, GRAP 102, *Intangible Assets*. Intangible assets with a gross carrying amount of R1 747 397 (2012: R1 747 397) are included in the financial statements at a zero net carrying amount whilst still being in use. I was not able to determine the correct net carrying amount of intangible assets as it was impracticable to do so.

### **Payables from exchange transactions**

32. I was unable to obtain sufficient appropriate evidence for salary control accounts included in payables from exchange transactions due to the unavailability of reconciliations for this balance. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustments to the salary control accounts stated at R1 073 138 (2012: R15 819 318) in note 15 to the financial statements was necessary.
33. I was unable to obtain sufficient appropriate evidence about retention creditors included in payables from exchange transactions due to lack of proper record keeping regarding retention monies owed. I was unable to confirm if all retention creditors were recorded by alternative means. Consequently, I was unable to determine if any adjustment to retention creditors stated at R1 039 500 (2012: R3 373 618) in note 15 to the financial statements was necessary.
34. The municipality did not recognise accrued staff leave in accordance with Standard of Generally Recognised Accounting Practice, GRAP19, *Provisions, contingent liabilities and contingent assets*. The municipality did not have adequate systems in place to maintain records of amounts accrued for staff leave days reflected as R5 288 611 in note 15 of the financial statements, which resulted in accrued staff leave days and employee cost being overstated by R1 272 464.

### **Cash flow statement**

35. I was unable to obtain sufficient appropriate audit evidence as to whether the cash flow statement and the related notes for the current and prior years were fairly stated, due to the material effect of misstatements and scope limitations identified in the financial statements, as set out in this report. I was unable to confirm the cash flow by alternative means. Consequently I was unable to determine whether adjustments were necessary to the amounts disclosed in the cash flow statement.

### **Budget information**

36. I was unable to obtain sufficient appropriate audit evidence for the differences between the statement of financial performance and the actual results contained in note 53. Also, I was unable to obtain sufficient appropriate evidence about the budgeted figures as disclosed in note 53. This was due to material differences between the amounts disclosed and the actual budget prepared by the municipality. I was unable to confirm these differences by alternative means. Therefore I am unable to determine whether adjustments to the financial statements are necessary.
37. The required budget information was not presented in accordance with Standard of Generally Recognised Accounting Practice, GRAP24, *Presentation of Budget Information in Financial Statements*. The financial statements did not contain a separate additional financial statement or budget column with an explanation of significant variances between the actual results and budgeted amounts.

### **Contingent liabilities**

38. The municipality did not disclose all contingent liabilities in accordance with SA Standards of GRAP, GRAP 19, Provisions, contingent liabilities and contingent assets. Employees' job evaluations were not completed and they were not paid according to the wage scales and rates in the wage curve agreement and did not receive the nine months retrospective increase. The contingent liability was however not disclosed.

### **Disclaimer of opinion**

39. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

### **Emphasis of matters**

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

### **Significant uncertainties**

41. With reference to note 42 to the financial statements, criminal charges have been laid against the municipality over the contamination of drinking water by sewerage. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

### **Material impairments**

42. As disclosed in note 5, 6 and 7 to the financial statements, material impairments on trade and other receivables of R131 434 703 (2012: R91 896 208) were incurred as a result of irrecoverable debtors.

### **Financial sustainability**

43. The accounting officer's report on page xx and note 45 to the financial statements indicate that Mafube Local Municipality has been experiencing financial difficulties. These conditions, as set forth in the accounting officer's report and note 45 indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern. The ability of the municipality to continue as a going concern is dependent on a number of factors, the most significant factor is that the accounting officer continues to procure funding for the ongoing operations of the municipality.

### **Additional matters**

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

### **Material inconsistencies in other information included in the annual report**

45. The municipality did not timeously submit a draft annual report for the financial period under review. The draft annual report which was subsequently submitted was incomplete. Consequently, the consistency and accuracy of information that will be reported in the annual report could not be confirmed against the audited financial statements.

### **Unaudited supplementary schedules**

46. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

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

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

### **Predetermined objectives**

48. The annual performance report was not presented for auditing and consequently my findings below are limited to the procedures performed on the strategic planning and performance management documents.
49. The information was assessed to determine whether performance indicators and targets were measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury's *Framework for managing programme performance information (FMPPI)*.
50. The material findings are as follows:

### **Usefulness of information**

The FMPPI requires that performance targets be measurable. The required performance could not be measured for a total of 100% of the targets. This was due to the fact that management was aware of the requirements of the *FMPPI* but vacancies in core performance management positions were not being filled within 12 months.

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

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

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

52. The municipality did not give effect to its Integrated Development Plan (IDP) and conduct its affairs in a manner which was consistent with its IDP, as required by section 36 of the Municipal Systems Act, 2000 (Act No.32 of 2000) (MSA) section 21(2)(a) of the MFMA and Municipal planning and performance management (MPPM) Regulation 6.
53. The municipality did not establish a performance management system, as required by section 38(a) of the MSA.
54. The municipality did not set key performance indicators, including input indicators, output indicators and outcome indicators, in respect of each of the development priorities and objectives set out in the IDP, as required by section 41(1)(a) of the MSA and the MPPM Regulation 1 and 9(1)(a).
55. The municipality did not set measurable performance targets for the financial year with regard to each of the development priorities and objectives and key performance indicators set out in the IDP, as required by section 41(1)(b) of the MSA and the MPPM Regulation 12(1) and 12(2)(e).
56. The municipality did not have and maintain effective, efficient and transparent systems of financial and risk management and internal controls as required by section 62(1)(c)(i) of the MFMA.

### **Budget**

57. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.
58. Quarterly reports were not submitted to the council on the implementation of the budget and financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.
59. Sufficient appropriate audit evidence could not be obtained that monthly budget statements were submitted to the mayor, as required by section 71(1) of the MFMA.

#### **Annual report and annual financial statements**

60. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a disclaimer of audit opinion
61. The 2011/12 annual report was not made public immediately after the annual report was tabled in the council, as required by section 127(5)(a) of the MFMA.
62. The council's oversight report on the 2011/12 annual report was not made public within seven days of its adoption, as required by section 129(3) of the MFMA.
63. The annual performance report for the financial year under review was not prepared, as required by section 46 of the Municipal Systems Act and section 121(3)(c) of the MFMA.

#### **Audit committee**

64. The audit committee did not advise the council or accounting officer on matters relating to internal financial control and internal audits, risk management, accounting policies, effective governance, performance management and performance evaluation as required by section 166(2)(a) of the MFMA.
65. The audit committee did not advise the council or accounting officer on matters relating to compliance with legislation, as required by section 166(2)(a)(vii) of the MFMA.
66. A performance audit committee was not in place and the audit committee was not used to fulfil the performance audit committee function, as required by MPPM Regulation 14(2)(a).

#### **Internal audit**

67. The internal audit unit did not function as required by section 165(2) of the MFMA, in that:
  - it did not prepare a risk-based audit plan and an internal audit programme for the financial year under review.
  - it did not report to the audit committee on the implementation of the internal audit plan.
  - it did not advise the accounting officer and/or report to the audit committee on matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management and loss control.
68. The internal audit unit did not advise the accounting officer or report to the audit committee on matters relating to compliance with the MFMA, the DoRA and other applicable legislation, as required by section 165(2)(b)(vii) of the MFMA.
69. The internal audit did not audit the results of performance measurements, as required by section 45(1)(a) of the MSA and MPPM Regulation (14)(1)(a).

70. The internal audit did not assess the functionality of the performance management system, as required by MPPM Regulation (14)(1)(b)(i).
71. The internal audit did not assess the extent to which the performance management system were reliable in measuring the performance of the municipality on key and general performance indicators, as required by MPPM Regulation (14)(1)(b)(iii).
72. The internal audit did not audit the performance measurements on a continuous basis and submitted quarterly reports on their audits to the municipal manager and the performance audit committee, as required by MPPM Regulation (14)(1)(c).

### **Procurement and contract management**

73. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by Supply Chain Management Regulation (SCM) 17(a) and (c).
74. Bid adjudication was not always done by committees which were composed in accordance with SCM Regulation 29(2).
75. The prospective providers list for procuring goods and services through quotations was not updated at least quarterly to include new suppliers that qualify for listing, and prospective providers were not invited to apply for such listing at least once a year as per the requirements of SCM Regulation 14(1)(a)(ii) and 14(2).
76. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by means of inviting competitive bids or that deviations approved by the accounting officer were only if it was impractical to invite competitive bids, as required by SCM Regulations 19(a) and 36(1).
77. Sufficient appropriate audit evidence could not be obtained that bid specifications for procurement of goods and services through competitive bids were drafted in an unbiased manner that allowed all potential suppliers to offer their goods or services, as per required by SCM Regulation 27(2)(a).
78. Sufficient appropriate audit evidence could not be obtained that contract and quotations were only awarded to providers whose tax matters have been declared by the South African Revenue Service to be in order as required by SCM Regulation 43.
79. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded only to bidders who submitted a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM Regulation 13(c).
80. The preference point system was not applied in the procurement of goods and services above R30 000 as per the requirements of section 2(a) of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) and SCM Regulation 28(1)(a).
81. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days, as required by SCM Regulations 22(1) and 22(2).

### **Human Resource Management**

82. The competencies of financial and supply chain management officials were not assessed in a timely manner in order to identify and address gaps in competency levels as required by regulation 13 of the Municipal Regulations on Minimum Competency Levels.

83. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury as required by regulation 14(2)(a) the Municipal Regulations on Minimum Competency Levels.
84. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies as required by regulation 14(2)(b)/14(3) of the Municipal Regulations on Minimum Competency Levels
85. Sufficient appropriate audit evidence could not be obtained that those newly appointed managers directly accountable to municipal manager submitted original/certified copies of academic and professional qualifications prior to appointment as per the requirements of Regulation 4 of GNR 805.
86. A number of senior managers did not have the higher education qualification as required by regulation 6 and 7 of the Municipal Regulations on Minimum Competency Levels.
87. The municipality did not develop and adopt appropriate systems (policies) and procedures to monitor, measure and evaluate performance of staff in contravention of MSA sec 67(d).
88. We were unable to confirm that the municipal manager and senior managers directly accountable to the municipal manager signed performance agreements within the timeframe, as required by section 57(2)(a) of the MSA
89. Sufficient appropriate audit evidence could not be obtained that the senior managers dismissed for financial misconduct in a previous position and re-appointed before the expiry of ten years in contravention of section 57A of the Municipal Finance Management Act.

#### **Expenditure management**

90. Money owing by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.
91. Payments were made without the approval of the accounting officer or a properly authorised official as required by section 11(1) of the MFMA.
92. An effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, was not in place, as required by section 65(2)(a) of the MFMA.
93. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred and accounted for creditors, as required by section 65(2)(b) of the MFMA.
94. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA

#### **Conditional grant received**

95. The municipality did not submit quarterly performance reports to the transferring national officer, the relevant provincial treasury and the National Treasury, within 30 days after the end of each quarter, as required by section 12(2)(c) of the DoRA.
96. The municipality did not evaluate its performance in respect of programmes funded by the Provincial Treasury or submit the evaluation to the transferring national officer within two months after the end of the financial year, as required by section 12(5) of the DoRA.
97. The municipality did not submit MFMA implementation plans to National Treasury to address weaknesses in financial management, as required by the DoRA Grant Framework, Gazette No.35399.

### **Revenue management**

98. An adequate management, accounting and information system which accounts for revenue was not in place, as required by section 64(2)(e) of the MFMA.
99. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

### **Asset management**

100. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
101. An effective system of internal control for assets including an asset register was not in place, as required by section 63(2)(c) of the MFMA.
102. The municipality did not establish an investment policy that was adopted by council, as required by section 13(2) of the MFMA and Municipal investment Regulation 3(1)(a).

### **Liability management**

103. Short-term debt was incurred without a resolution of the municipal council approving the debt agreement, in contravention of section 45(2) of the MFMA.
104. Short-term debt was not repaid within the financial year, as required by section 45(4)(a) of the MFMA.

### **Consequence management**

105. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.
106. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.
107. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.
108. The condoning of irregular expenditure was not approved by the appropriate relevant authority, in accordance with the requirements of sections 1 and 170 of the MFMA.
109. Council certified irregular, fruitless and wasteful expenditure as irrecoverable without conducting an investigation by council committee to determine recoverability of the expenditure, as required by section 32(2) of the MFMA.

### **Environmental management**

110. The municipality operated their waste disposal sites without a waste management license or permit, in contravention of section 20(b) of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008) and section 20(1) of the Environmental Conservation Act, 1989 (Act No. 73 of 1989).

### **Internal control**

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

### **Leadership**

112. Management did not adequately respond to the AGSA message as they did not effectively discharge their oversight responsibilities in order to ensure an improvement in the audit outcome. The leadership did not always take timely and adequate action to address weaknesses in the finance and supply chain management directorate, which resulted in non-compliance with applicable legislation and gave rise to irregular expenditure. Management failed to properly analyse the control weaknesses and implement appropriate follow-up actions that adequately addressed the root causes previously reported.

### **Financial and performance management**

113. Proper record keeping was not implemented in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting. Effective performance systems, processes and procedures as well as the management thereof had not been adequately developed and implemented. Inadequate filing procedures at the municipality resulted in limitations of scope during the current and previous year's audits. As a result significant difficulties were experienced in respect of the availability of information. The financial statements were not properly reviewed for completeness and accuracy prior to submission for auditing.
114. Management also did not establish effective monitoring and evaluation components or processes both within its finance and strategic planning directorates to regularly review and monitor management's compliance with laws, regulations and internally designed policies and procedures due to capacity problems. As a result, significant non-compliance issues were noted that could have been prevented.

### **Governance**

115. On-going monitoring and supervision were not undertaken to enable an assessment of the effectiveness of internal control over financial and performance reporting due to the fact that the chief internal auditor position in the internal audit department was still vacant. Thus internal control deficiencies were not identified, communicated and corrected in a timely manner. The implementation of external audit recommendations was not prioritised and also not monitored. This resulted in the prior year audit findings not being substantially addressed.
116. As a result of the ineffective functioning of the internal audit unit as well as inadequate support by management, the audit committee could not adequately promote accountability and service delivery by evaluating and monitoring responses to risks and providing oversight of the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

Bloemfontein

28 November 2013



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*