

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Tokologo Local Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, as set out on pages [XX] to [XX].

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the 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, 2010 (Act No. 1 of 2010) (DoRA) and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) my responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Inventories

4. I was unable to obtain sufficient appropriate audit evidence to determine the completeness, existence, valuation and allocation and the municipality's rights to inventory of R1 339 442 (2010: R1 339 442) disclosed in note 7 to the financial statements. The municipality's records did not permit the application of alternative audit procedures.

Trade and other receivables from exchange transactions

5. As reported in the prior year, my opinion on the corresponding figure for trade and other receivables was modified due to a lack of sufficient appropriate audit evidence for journals amounting to R4 728 275. The municipality failed to make proper adjustments to the corresponding figure reported. Consequently, I could not satisfy myself as to the completeness, accuracy and valuation and allocation of trade and other receivables from exchange transactions of R323 072 and R37 384 645 disclosed in notes 8 and 10 to the financial statements respectively.
6. I was unable to obtain sufficient appropriate audit evidence for trade and other receivables from exchange transactions of R509 564 and R43 458 037 as disclosed in notes 8 and 10 to the financial statements respectively. Alternative procedures indicated an unexplained difference between the financial statements and age analysis. The municipality's records did not permit the application of further alternative audit procedures. Consequently, I could not satisfy myself as to the existence, completeness and, valuation and allocation of trade and other receivables from exchange transactions.

7. Paragraph 58 of the South African Statement of Generally Accepted Accounting Practice, IAS 39: *Financial Instruments: Recognition and Measurement* (IAS 39) requires the municipality to assess at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. Although the municipality performed an impairment exercise I was unable to obtain sufficient appropriate audit evidence to support the completeness and accuracy of the impairment calculation. The municipality's records did not permit the application of alternative audit procedures and I could not practicably quantify the resulting misstatement in the components of the financial statements and notes thereto. Consequently, I could not satisfy myself as to existence, completeness, accuracy, valuation and allocation of, and municipality's rights to trade and other receivables from exchange transactions of R12 811 473 (2010:R31 382 623) disclosed in note 10 the financial statements
8. In accordance with SA Standards of GRAP, GRAP 1, *Presentation of Financial Statements*, the municipality is required to separately disclose receivables from non-exchange activities, which would include income receivable from taxes and transfers. Revenue from property rates is considered as non-exchange revenue as per paragraph 1.11 of the municipality's accounting policy. Property rates receivable of R8 224 982 (2010: R11 227 101) were, however, included under receivables from exchange activities as per note 10 to the financial statements. Trade receivables from non-exchange transactions were consequently understated and consumer receivables from exchange transactions were overstated by this amount.

VAT receivable

9. As reported in the prior year, my opinion on the corresponding figure for the VAT receivable was modified in the prior year as input VAT of R5 726 758 not processed on the municipality's financial system resulting in expenditure being overstated and input VAT understated by the same amount. Sufficient appropriate audit evidence for journals of R819 557 could not be provided. The municipality failed to make proper adjustments to the corresponding figure reported in note 9 to the financial statements. Consequently, I could not satisfy myself as to the completeness, accuracy and valuation and allocation of the VAT receivable of R2 406 913.
10. I was unable to obtain sufficient appropriate audit evidence to determine the existence, completeness and valuation and rights to the VAT receivable of R3 108 223 as disclosed in note 9 to the financial statements. The municipality's records did not permit the application of alternative audit procedures.

Cash and cash equivalents

11. I was unable to obtain sufficient appropriate audit evidence to determine the existence, completeness, valuation and allocation of, and rights pertaining to short term deposits of R6 667 278 included in cash and cash equivalents of R2 182 323 disclosed in note 11 to the financial statements. Alternative procedures indicated short term call deposits of R28 146 where management are not signatories to these accounts. The municipality's records did not permit the application of further alternative audit procedures.

Property, plant and equipment

12. As reported in the prior year, my opinion on the corresponding figure for property, plant and equipment of R168 241 547 was modified. The municipality failed to make proper adjustments to the corresponding figure reported. Consequently, the existence, completeness, accuracy, rights to, and valuation and allocation of the corresponding figure for property, plant and equipment disclosed in note 4 to the financial statements could not be confirmed.
13. I was unable to obtain sufficient appropriate audit evidence to determine the existence, completeness, and rights pertaining to property, plant and equipment of R221 020 218 as disclosed in note 4 to the financial statements. The municipality's records did not permit the performance of alternative audit procedures.

14. SA Standards of GRAP, GRAP 17, *Property, Plant and Equipment* require that items of work in progress should be separately disclosed. Work in progress of R45 663 565 is incorrectly reported as assets in note 4 to the financial statements. As a result property, plant and equipment is overstated by R45 663 563 and work in progress is understated by the same.
15. Although the municipality has opted for transitional provisions in terms of directive 4, certain assets were depreciated. Due to inadequate information in the asset register as required by SA Standards of GRAP, GRAP 17, *Property, Plant and Equipment*, I was unable to obtain sufficient appropriate audit evidence for both the current depreciation of R1 382 361 (2010:R849 040) and accumulated depreciation provisions of R2 347 011 (2010: R1 265 745) disclosed in the statement of financial performance and note 4 to the financial statements respectively. The municipality's records did not permit the application of alternative audit procedures.

Investment property

16. SA Standards of GRAP, GRAP 16, *Investment property*, requires that the municipality should recognise an investment property when it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity, and the cost or fair value of the investment property can be measured. I was unable to obtain sufficient appropriate audit evidence for investment property of R114 999 (2010: R114 999) disclosed in note 3 to the financial statements. The municipality's records did not permit the application of alternative audit procedures. Consequently, I was unable to determine the completeness, valuation and allocation, existence, and rights of investment properties which had to be recognised and disclosed in the financial statements.

Trade and other payables from exchange transactions

17. As reported in the prior year, my opinion on the corresponding figure for trade and other payables from exchange transactions of R14 987 587 was modified. The municipality failed to make proper adjustments to the corresponding figure reported. Consequently, the existence, completeness, obligations and valuation and allocation of the corresponding figure for trade and other payables from exchange transactions disclosed in note 15 to the financial statements could not be confirmed.
18. I was unable to obtain sufficient appropriate audit evidence for trade and other payables from exchange transactions of R6 631 946 disclosed note 15 to the financial statements. Alternative procedures indicated unknown direct deposits with uncertain VAT implications, lack of creditor reconciliations and the inclusion of un-cleared suspense accounts contrary to section 65(2)(j) of the MFMA. The municipality's records did not permit the application of further alternative audit procedures. Consequently, I was unable to determine the completeness, existence, valuation and allocation of, and obligations for trade and other payables from exchange transactions.
19. A leave pay accrual of R2 138 126 (2010:R1 773 086) was incorrectly included in provisions instead of trade and other payables from exchange transactions. Consequently, provisions are overstated by R2 138 126 (2010:R1 773 086) and trade and other payables from exchange transactions are understated by the same amount.

Accumulated surplus

20. As reported in the prior year, my opinion on the corresponding figure for the accumulated surplus of R196 100 212 was modified. The municipality failed to make proper adjustments to the corresponding figure reported. Consequently, the existence, completeness, rights and obligations and valuation and allocation of the corresponding figure for accumulated surplus included in the statement of financial position and statement of changes in net assets could not be confirmed.

21. I was unable to obtain sufficient appropriate audit evidence for the accumulated surplus of R219 157 704 disclosed in the statement of financial position and statement of changes in net assets. Alternative procedures indicated adjustments relating to the prior year which differs between the general ledger and the statement of changes in net assets. The municipality's records did not permit the application of further alternative audit procedures. Consequently, I could not satisfy myself as to the existence, completeness, accuracy, valuation and allocation and rights and obligations of the accumulated surplus.

Provisions

22. As reported in the prior year, my opinion on the corresponding figure for provisions of R16 258 325 was modified. The municipality failed to make proper adjustments to the corresponding figure reported. Consequently, the existence, completeness, rights and obligations and valuation and allocation of the corresponding figure for provisions disclosed in note 14 to the financial statements could not be confirmed.

23. SA Standards GRAP, GRAP 19, *Provisions, contingent liabilities and contingent assets*, requires disclosure of present obligations due to past events. The municipality has a present obligation to rehabilitate municipal landfill sites. I was unable to obtain sufficient appropriate audit evidence for the additions to the provision of R12 894 737 included in the provision of R14 120 199 disclosed in note 14 to the financial statements. The municipality's records did not permit the application of alternative audit procedures and I was unable to practicably quantify the misstatement of the provision and expenses included in the statement of financial performance. Consequently, I could not satisfy myself as to the accuracy, completeness and valuation of provisions.

Post-retirement medical aid or pension obligation

24. South African Statement of Generally Accepted Accounting Practice, IAS 19, *Employee Benefits*, requires that a liability should be recognised when an employee has provided service in exchange for employee benefits to be paid in the future. Contrary to this requirement the municipality did not recognise and disclose any post-retirement medical aid or pension obligation. In the absence of post retirement medical aid contracts and actuarial valuations, I was unable to practicably quantify the extent of the understatement. Post-retirement medical aid and pension obligation are thus understated by an unknown amount.

Revenue

25. As reported in the prior year, my opinion on the corresponding figure for revenue of R84 343 486 was modified. The municipality failed to make proper adjustments to the corresponding figure reported. Consequently, the occurrence, completeness, accuracy, cut-off and classification of the corresponding figure for revenue disclosed in the statement of financial performance could not be confirmed.

26. SA Standards of GRAP, GRAP 9, *Revenue from Exchange Transactions*, requires that revenue from the sale of goods should be recognised when the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods. Contrary to this requirement the municipality recognised revenue from prepaid electricity of R1 666 950 in full on the date of sale of prepaid electricity and not when the electricity was used by the consumer. As a result, a portion of the sale of prepaid electricity revenue has been incorrectly recognised as revenue, instead of deferred income. The municipality's system did not permit the application of alternative audit procedures and I could not practicably quantify the extent by which revenue is overstated and deferred income is understated in the financial statements.

27. I was unable to obtain sufficient appropriate audit evidence for property rates of R1 701 085, interest earned on outstanding trade and other receivables of R509 385 included in interest earned of R1 674 125, rental of facilities and equipment of R214 517 and fines of R115 598. The municipality's system did not permit the application of alternative audit procedures. Consequently, I could not satisfy myself as to the occurrence, completeness, accuracy, cut off and classification of revenue of R103 459 225 disclosed in the statement of financial performance.

Employee related cost

28. I was unable to obtain sufficient appropriate audit evidence for employee related cost of R20 329 141 (2010: R17 378 832) and remuneration of councillors of R1 497 149 (2010: R1 625 893) disclosed in the statement of financial performance. The municipality's system did not permit the application of alternative audit procedures. Consequently, I could not satisfy myself as to the occurrence, completeness, accuracy, cut-off and classification of employee related cost and remuneration of councillors.
29. SA Standards of GRAP, GRAP 1, *Presentation of Financial Statements* requires that the financial statements is to present fairly the financial performance of an entity. The municipality did not apply the approved upper limits of Public Office Bearers Act of South Africa, 1998 (Act No. 20 of 1998) for councillors remuneration so as to offset prior year overpayments. Consequently, employee costs are understated by R1 317 975 and staff debtors by the same amount.

Finance lease liabilities and operating leases

30. I was unable to obtain sufficient appropriate audit evidence for telephone and fax expenditure of R715 821 included in general expenses of R6 558 827 disclosed in note 21 to the financial statements. I was unable to obtain all the mobile telephone agreements requested during the audit. In the absence of the mobile telephone contract agreements I was unable to obtain sufficient appropriate audit evidence as to the classification of this expenditure in terms of SA Standards of GRAP, GRAP 13, *Leases*. Consequently, I could not satisfy myself as to the completeness, classification, valuation and allocation of, and right and obligations of finance lease obligations of R308 174 (2010: R480 239) as disclosed in note 12. Furthermore I was unable to determine the accuracy, completeness, occurrence, cut-off and classification of telephone and fax expenditure.

General expenses

31. As reported in the prior year, my opinion on the corresponding figure for general expenses of R6 405 829 disclosed in note 21 to the financial statements was modified. The municipality failed to make proper adjustments to the corresponding figure reported. Consequently, the occurrence, completeness, accuracy, cut-off and classification of the corresponding figure for general expenses disclosed in the statement of financial performance could not be confirmed.

Cash flow statement

32. I was unable to obtain sufficient appropriate audit evidence for amounts and disclosures included in the cash flow statement and notes thereto. I performed alternative procedures and found incorrect calculations and disclosures in the cash flow statement and notes thereto. Consequently, I was unable to determine the accuracy and valuation, completeness and classification and understandability of the cash flow statement and notes thereto.

Irregular and Fruitless and wasteful expenditure

33. Irregular expenditure is defined in section 1 of the MFMA as expenditure incurred by the municipality in contravention of or that is not in accordance with, a requirement of this Act and non compliance to the procurement requirements and which has not been condoned in terms of section 170. All irregular expenditure amounting to R30 669 396 (2010:R9 113 882) as disclosed in note 42 to financial statements was identified during the audit process. The municipality did not maintain a system to account for and identify irregular expenditure during the financial year and there were no satisfactory alternative procedures that I could perform to obtain reasonable assurance that all cases of irregular expenditure were identified and completely recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to confirm the completeness of irregular expenditure.
34. Section 1 of the MFMA defines fruitless expenditure as expenditure that was made in vain and would have been avoided had reasonable care been exercised. Section 125(2)(d) of the MFMA requires the disclosure of fruitless expenditure in the financial statements of municipalities. The municipality did not maintain a system to account for and identify fruitless and wasteful expenditure during the financial year and there were no satisfactory alternative

procedures that I could perform to obtain reasonable assurance that all cases of fruitless and wasteful expenditure were identified and recorded. Fruitless and wasteful expenditure amounting to R752 173 (2010: R13 773 783) identified during the audit was not completely disclosed in note 41 to the financial statements. This fruitless and wasteful expenditure related to interest, penalties and overpayments.

Prior period errors

35. SA Standards of GRAP, GRAP 3, *Accounting policies, changes in accounting estimates and errors* requires an entity to disclose the nature of the prior period error, for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected, the amount of the correction at the beginning of the earliest prior period presented; and (d) if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected. These requirements were not adhered to in note 36 to the financial statements.

Going concern

36. The municipality is heavily dependent on grants and subsidies. The absence of these grants and subsidies combined with all matters described in the basis for disclaimer of audit opinion paragraphs, as well as the difficulties experienced by the municipality in recovering its consumer debtors, thereby negatively affecting its cash flows indicate the existence of the material uncertainty for the municipality to continue as going concern if the municipality for any reason is unable to access these grants and subsidies.

Disclaimer of opinion

37. 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

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

Restatement of corresponding figures

39. As disclosed in note 36 and 37 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of an error discovered during the year ended 30 June 2011 in the financial statements of the Tokologo Local Municipality at, and for the year ended, 30 June 2010.

Unauthorised expenditure

40. As disclosed in note 40 to the financial statements, the municipality incurred unauthorised expenditure of R32 329 251 due to the overspending of various budget votes.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

41. In accordance with the PAA and in terms of *General Notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

42. I was unable to conduct the audit of performance against predetermined objectives as the municipality did not submit the annual performance report as required by section 46 of the MSA and section 121(3)(c) of the MFMA.

Compliance with laws and regulations

Strategic planning and performance management

43. The municipal council did not, within the prescribed period after the start of its elected term, adopt a process set out in writing to guide the planning, drafting, adoption and review of its integrated development plan as required by section 28(1) of the MSA.
44. The municipality did not implement a framework that describes and represents how the municipality's cycles and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, as required by sections 38, 39, 40 and 41 of the MSA and Municipal Planning and Performance Management Regulations 7 and 8.
45. The accounting officer did not assess the municipality's actual service delivery performance for the first half of the financial year against the service delivery targets and performance indicators set in the service delivery and budget implementation plan, by 25 January 2011 as required by section 72(1)(a)(ii) of the MFMA.
46. The accounting officer did not submit the results of the assessment on the performance of the municipality during the first half of the financial year to the mayor of the municipality, the National Treasury, and the provincial treasury, as required by section 72(1)(b) of the MFMA.
47. The municipal council's annual review of the IDP was not effective as the IDP was not updated with changes in circumstances resulting from the budgetary process. The annual review of the IDP did not include a performance evaluation of the actual objectives achieved in order to identify areas of underperformance and ensure appropriate key performance indicators and objectives are set as required by sections 29, 34, 36 and 41 of the MSA.
48. The accounting officer did not submit a service delivery and budget implementation plan as defined in section 1 of the MFMA for the year to the mayor as required by section 69(3) of the MFMA.
49. The general key performance indicators, as announced by the MEC for Local Government, have not been integrated into the IDP, and a review process has not been implemented for key performance areas, as required by section 43 and regulations 10 and 11 of the MSA.

Budgets

50. The municipality incurred expenditure that was not budgeted for and/or incurred expenditure in excess of the limits of the amounts provided for in the votes in the approved budget, in contravention of section 15 of the MFMA.
51. The mayor did not submit all quarterly reports to council on the implementation of the budget and the 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.
52. The accounting officer did not always submit the monthly budget statements to the mayor and/or the relevant provincial treasury, as required by section 71(1) of the MFMA.
53. Unforeseeable and/or unavoidable expenditure not provided for in the annual budget was incurred but was then not appropriated in an adjustment budget, as required by section 29(2)(d) of the MFMA.
54. The adjustment budget of the municipality was not approved by council, as required by Municipal Budget and Reporting Regulation 25.
55. The accounting officer did not submit the approved annual and adjusted budget to the relevant provincial treasury, within 10 working days after council approval of the budget as required by sections 24(3) and 28(7) of the MFMA and Municipal budget and reporting regulation 18(1) and 27(1) (GNR 393 of 17 April 2009).

56. The accounting officer did not submit the monthly budget statements to the mayor and the relevant provincial treasury, as required by section 71(1) of the MFMA.
57. The accounting officer did not perform a mid-year budget and performance assessment as required by section 72 of the MFMA.

Annual financial statements, performance and annual reports

58. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors were not adequately corrected, which resulted in the financial statements receiving a disclaimer of audit opinion.
59. The accounting officer did not submit the annual financial statements of the municipality for auditing, within two months after the end of the financial year as required by section 126(1)(a) of the MFMA.
60. The performance report for the financial year under review was not prepared as required by section 46 of the Municipal Systems Act (MSA) and section 121(3)(c) of the MFMA.
61. The mayor did not table, in council, the 2009/10 annual report of the municipality, within seven months after the end of the financial year as required by section 127(2) of the MFMA.
62. The mayor did not submit a written explanation to the council setting out the reasons for the delay in the tabling of the 2009/10 annual report in council as required by section 127(3) of the MFMA.
63. The accounting officer did not make the 2009/10 annual report public immediately after the annual report was tabled in the council as required by section 127(5) of the MFMA.
64. The municipal council did not adopt an oversight report containing the council's comments on the annual report within two months from the date on which the 2009/10 annual report was tabled in the council as required by section 129(1) of the MFMA.
65. The municipality did not disclose in the notes to the financial statements the amount of audit fees, pension and medical aid contributions outstanding at the end of the financial year as required by section 125(1)(c) of the MFMA and particulars of non-compliance with the MFMA as required by section 125(2)(e) of the MFMA.
66. Contrary to the requirements of section 74(1) of the MFMA, the accounting officer did not submit the draft annual reports for the year ending 2010-11 for audit purposes.

Audit committees

67. The audit committee did not function as required by section 166 of the MFMA, as it did not advise the council, the accounting officer and/or the management and staff of the municipality on matters relating to internal financial control and internal audits, risk management, accounting policies, performance management, effective governance, compliance with applicable legislation and performance evaluation.
68. The audit committee did not review the annual financial statements;
69. The audit committee did not respond to the council on any issues raised by the Auditor-General in the audit report;
70. The audit committee did not meet at least four times a year as required by section 166(4)(b) of the MFMA.
71. The municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee as required by Municipal Planning and Performance Management Regulation 14.

Internal audit

72. 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;
73. The internal audit processes and procedures did not include assessments of the functionality of the municipality's performance management system and whether the system complied with the requirements of the MSA as required by Municipal Planning and Performance Management Regulation 14.
74. The internal audit processes and procedures did not include assessments of the extent to which the municipality's performance measurements were reliable in measuring the performance of the municipality on key as well as general performance indicators as required by Municipal Planning and Performance Management Regulation 14.
75. The internal auditors of the municipality did not audit the performance measurements on a continuous basis and/or did not submit quarterly reports on their audits to the municipal manager and the performance audit committee as required by Municipal Planning and Performance Management Regulation 14.
76. Internal audit did not report to the audit committee on the implementation of the internal audit plan;
77. Internal audit did not advise the accounting officer and report to the audit committee on matters relating to internal audit, internal controls, accounting procedures and risk and risk management.

Procurement and contract management

78. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) and (c).
79. Final awards and/or recommendation of awards to the accounting officer were not always made by an adjudication committee which was appropriately constituted of as per the requirements SCM regulation 29(2).
80. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids as per the requirements of SCM regulation 19(a) and 36(1).
81. The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).
82. Contrary to the requirements of section 41(2) of the Municipal Supply Chain Regulations I could not obtain a risk register or other documentary proof that risk assessment relating to the SCM system were performed.
83. Contrary to the requirements of regulation 14 of the Municipal Supply Chain Regulations the accounting officer did not keep a list of accredited prospective providers of goods and services.
84. Evidence could not be obtained that the required supply chain management reports had been compiled and reviewed by management to ensure compliance with regulation 6(1),(3) and (4) of the Municipal Supply Chain Management Regulations.
85. No evidence could be obtained that the written report on the monthly awards made by the chief financial officer, a senior manager or a bid adjudication committee was submitted to the accounting officer as required by regulation 5(4) of the Municipal Supply Chain Management regulations.

86. I was unable to determine if invoices amounting R617 485 were deliberately split in contravention of section 12(3)(a) of the supply chain management regulations, as no contracts or bid documentation could be provided for these invoices. The services and goods relating to these invoices were procured from the same suppliers.

Human resources management and compensation

87. The municipal manager did not ensure that the municipality has adequate human resource capacity that enables it to perform its functions and exercise its powers in an economical, efficient, effective and accountable manner in compliance with section 68 (1) of MSA.
88. The municipal manager did not within a policy framework determined by the municipal council and subject to any applicable legislation, approve a staff establishment of the municipality, provide job descriptions for each post on the staff establishment, attach to those posts the remuneration and other conditions of service as may be determined in accordance with applicable labour legislation and establish a process or mechanism to regularly evaluate the staff establishment and if necessary review the staff establishment and the remuneration and condition of service, as required by sections 66(1)(a)-(d) of the MSA.

Expenditure management

89. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds as required by section 65(2) of the MFMA.
90. The accounting officer did not take all reasonable steps to ensure that all money owing by the municipality is paid within 30 days of receiving the relevant invoice 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. The accounting officer did not take all reasonable steps to prevent, identify and report unauthorised, irregular, fruitless and wasteful expenditure and other losses, as required by section 62(1)(d) and 32 of the MFMA.
93. The municipality did not recover unauthorised, irregular or fruitless and wasteful expenditure from the liable person, as required by section 32(2) of the MFMA.

Revenue management

94. Interest was not charged on all arrears accounts as required by section 64(2)(g) of the MFMA.
95. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which recognised revenue when it is earned, accounted for all debtors and receipts of revenue, as required by section 64(2)(e) of the MFMA.
96. Revenue received by the municipality was not always reconciled at least on a weekly basis, as required by section 64(2)(h) of the MFMA.
97. The municipality's credit and debt collections policy did not provide realistic targets consistent with collection ratios as required by section 97(1)(d) of the MSA.

Asset management

98. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system and internal controls which account for the assets of the municipality as required by section 63(2)(a) and (c) of the MFMA.
99. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of internal control for assets (including an asset register) as required by section 63(2)(c) of the MFMA.

Financial misconduct

100. The municipality did not investigate all identified possible, unauthorised, irregular, fruitless and wasteful expenditure and take disciplinary action against the relevant staff members as required by section 171(4)(b) of the MFMA.

INTERNAL CONTROL

101. In accordance with the PAA and in terms of *General Notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

102. The leadership did not exercise its oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

103. The leadership did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.

104. The leadership did not establish and communicate policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities.

105. The leadership did not develop and monitor the implementation of action plans to address internal control deficiencies.

106. The leadership did not establish an IT governance framework that supports and enables the business, delivers value and improves performance.

Financial and performance management

107. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

108. Management did not implement controls over daily and monthly processing and reconciling of transactions.

109. Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

110. Management did not review and monitor compliance with applicable laws and regulations.

111. Management did not design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

Governance

112. Management did not implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.

113. The internal audit unit did not function adequately and did not identify internal control deficiencies and recommend corrective action effectively.

114. The audit committee did not promote accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

Auditer General

Bloemfontein

21 December 2011



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence