

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Kopanong 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, a summary of significant accounting policies and other explanatory information, and the accounting officer's report as set out on pages 79 to 121.

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 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, 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. For reasons as detailed below, I was unable to obtain sufficient appropriate audit evidence as to the existence, completeness, classification and valuation of, and rights to, property, plant and equipment amounting to R362 142 160 (2010: R330 551 220), as disclosed in the statement of financial position and note 8 to the financial statements. Due to the extent of the weaknesses in the municipality's fixed asset records, the lack of sufficient appropriate supporting documentation and no reliance that could be placed on the internal verification of assets, alternative audit procedures could not be performed. Consequently, I was unable to determine the existence, completeness, classification and valuation of, and rights to, property, plant and equipment.
 - (a) Investment property was not disclosed in the financial statements, although the municipality had property that met the definition of investment property according to the SA Standards of GRAP, GRAP 16, *Investment property*. Due to the lack of properly maintained registers, which detailed the location, value and classification of properties between owner-occupied and investment properties, I was thus unable to perform all the audit procedures that I considered necessary to confirm that property, plant and equipment had been appropriately classified in the financial statements.

- (b) Several assets to the value of R292 083 734 (2010: R265 226 539) could either not be physically verified or could not be traced back to the asset register, owing to vague and unclear descriptions or insufficient detail with regard to the location of the specific asset.
 - (c) The municipality did not account for depreciation or impairment charge for the current and the prior financial years, as required by the SA Standards of GRAP, GRAP 17, *Property, plant and equipment*, which states that subsequent to initial recognition at cost, an item of property, plant and equipment should be carried at cost less accumulated depreciation and accumulated impairment losses.
 - (d) The municipality did not identify and disclose servitudes which meet the definition or recognition criteria according to the SA Standards of GRAP, GRAP 102, *Intangible assets*.
 - (e) The asset register does not include details on the classification of property, plant and equipment between land, buildings, infrastructure, community, other property, plant and equipment and heritage, as disclosed in the financial statements.
 - (f) The municipality did not evaluate lease contracts, in the prior and the current financial years, to determine whether it substantially transfers all the risks and rewards incidental to ownership and should be classified as a finance lease according to the SA Standards of GRAP, GRAP 13, *Leases*.
 - (g) Assets acquired at no cost, or for a nominal cost, were not valued at its fair value at the date of acquisition according to the SA Standards of GRAP, GRAP 17, *Property, plant and equipment*.
 - (h) Property, plant and equipment included in the municipality's equipment register were not valued and recognised in terms of the SA Standards of GRAP, GRAP 17, *Property, plant and equipment*. Consequently, none of these assets were disclosed in the financial statements.
 - (i) Supporting documentation, including invoices, to confirm acquisitions of property, plant and equipment amounting to R887 464 could not be obtained.
 - (j) Property amounting to R1 861 338 (2010: R3 132 077) was not registered in the name of the municipality. Supporting documentation, to confirm whether property has been registered in the name of the municipality, amounting to R1 437 583, could not be obtained.
5. The municipality expensed assets, which had to be recognised in terms of the SA Standards of GRAP, GRAP 17, *Property, plant and equipment*. Had this transaction been correctly treated property, plant and equipment would have increased by R852 606, general expenses decreased by R207 894 and repairs and maintenance by R644 712 as disclosed in note 8 and note 27 respectively of the financial statements.

Revenue

6. As a result of the matters detailed below, I was unable to obtain sufficient appropriate audit evidence as to confirm the completeness, accuracy, occurrence and classification of revenue disclosed as R184 951 607 (2010: R164 202 415) in the statement of financial performance.
- (a) No reconciliation could be provided between the actual income levied for assessment rates and a calculation of the assessment rates income based on the valuation roll. The performance of alternative procedures to recalculate assessment rates individually and compare them with the actual assessment rates charged for receivables for the current year, indicated that assessment rates were understated by R2 492 926 (2010: R3 487 416).
 - (b) Accurate route lists for water charges amounting to R5 857 570, could not be provided. Consequently, I was unable to obtain sufficient appropriate audit evidence as to the

accuracy, completeness and occurrence of water charges. The municipality's records did not permit the application of alternative procedures. Furthermore, several differences relating to the monthly accumulated water charges for the financial period were noted between accounts for receivables and performed recalculations from water meter readings. The differences were caused by meter readings not being captured in a complete and accurate manner from route lists to the receivables system. The error in this respect amounted to R161 518 (2010: R4 501 010).

- (c) Property rental registers were not always prepared, reviewed and reconciled to the general ledger during the financial year. Consequently, I was unable to obtain sufficient appropriate audit evidence as to the completeness and accuracy of revenue from this source that amounted to R902 212 (2010:R1 055 816) for the year under review.
- (d) As a result of community uprising regarding the lack of service delivery, the Reddersburg unit at the Kopanong district was destroyed by fire. The unit no longer had sufficient and appropriate audit evidence in the prior financial year to support the completeness, accuracy and occurrence of revenue recorded by them, as most of the supporting documentation was destroyed in the fire. Furthermore, the control of receipts and deposit books in the prior financial year was insufficient at other units and several receipts and deposit books could not be submitted. As a result, the completeness, occurrence and accuracy of revenue could not be confirmed.
- (e) A complete list or register of rotating electricity meters registered at the Kopanong district, in the prior financial year, could not be provided by the electricity service provider or by the municipality. I was thus unable to confirm whether debtor accounts existed and whether meter readings were taken in respect of all installed electricity meters. The revenue arising from the sale of electricity as per the general ledger and the revenue arising from the sale of electricity as per the billing system did not agree as well. Furthermore, a difference of R930 873 during the prior financial year was identified that could not be explained. Consequently, I was unable to obtain sufficient appropriate audit evidence as to the completeness of revenue from this source that amounted to R10 045 901.
- (f) Receipts to a value of R467 282 could not be traced to bank statements to confirm that the receipts were in fact deposited in the municipality's bank account. The municipality's records did not permit the application of alternative procedures. As a result, sufficient appropriate audit evidence as to the completeness and accuracy of bank deposits amounting to R467 282 could not be obtained.
- (g) The prepaid electricity sales data for the period 1 April 2010 to 30 June 2010 could not be verified, as the information submitted did not agree to the control totals. As a result, sufficient appropriate audit evidence could not be obtained as to the completeness, occurrence and accuracy of the prepaid sales of R17 355 324, in the prior financial year, as included in the sale of electricity in note 22 to the financial statements. The system did not allow for the performance of alternative audit procedures. Furthermore, prepaid electricity sales were not calculated accurately throughout the financial period as a difference of R2 134 770 was noted between actual prepaid electricity sales, as included in note 22 to the financial statements, and prepaid electricity sales re-calculated. As a result no reliance could be placed over the systems implemented to account for prepaid electricity sales. Consequently, sufficient appropriate audit evidence could not be obtained as to the completeness, occurrence and accuracy of the prepaid sales of R18 437 269, as included in the sale of electricity in note 22 to the financial statements.
- (h) Supporting documentation with regard to direct income (electricity reconnections and connections) amounting to R455 382 (2010:R159 104) could not be obtained. Alternatively, a list of quotations was obtained, but the list was not only limited to quotations in respect of connections and could therefore not be traced to direct income.

In the absence of supporting documentation, the occurrence, accuracy and classification of this income could not be confirmed.

7. No refuse and sewerage service charges have been charged to debtors for services rendered during the financial year. Had this transaction been correctly treated service charges would have increased by R1 024 347, the VAT payable would have increased by R143 408 and trade receivables from exchange transactions would have increased by R1 167 755 as disclosed in note 14 and note 3 respectively of the financial statements.
8. The electricity service provider did not make an estimate of unmetered sales between 23 June 2011 and 30 June 2011. Had this transaction been correctly treated trade receivables from exchange transactions, as disclosed in note 3 of the financial statements, would have increased and the accumulated surplus decreased by R234 346.

Expenditure

9. I was unable to obtain supporting documents for expenditure amounting to R570 175 (2010:R640 194) as the municipality had not implemented adequate control measures to prevent and identify expenditure incurred without supporting documents. The entity's records did not permit the application of alternative procedures. Consequently, I was unable to determine the occurrence, completeness, accuracy and classification of expenditure of R570 175 (2010:R640 194) included in expenditure of R152 619 181 (2010:R162 597 880), as disclosed in the statement of financial performance.
10. Supporting documentation for trade and other payables written off against general expenditure amounting to R888 892, as disclosed in note 10 to the financial statements in the prior year could not be obtained. The municipality's records did not permit the performance of alternative procedures. Consequently, I was also unable to determine the occurrence, completeness, accuracy and classification of expenditure of R888 892 included in expenditure of R162 597 880 for the prior year, as disclosed in the statement of financial performance.
11. Supporting documentation to confirm the classification of expenditure amounting to R190 000 could not be obtained. The municipality's records did not permit the application of alternative procedures. Consequently, sufficient appropriate audit evidence as to the classification of repairs and maintenance amounting to R190 000, could not be obtained.
12. Included in debt impairment, as disclosed in note 24 of the financial statements, are bad debts written off amounting to R193 240 which related to accounts which has been written off in previous financial years. The municipality incorrectly processed transactions to these accounts during the previous and current financial years and wrote off transactions processed erroneously against these accounts, during the current financial year. The municipality's records did not permit the performance of alternative procedures. Consequently sufficient, appropriate audit evidence as to the accuracy and occurrence of debt impairment amounting to R193 240, included in note 24 of the financial statements, could not be obtained.

Trade and other payables

13. The municipality included consumer deposits relating to the electricity service provider, to a value of R407 781 in note 10 to the financial statements. An accurate and complete consumer deposit listing relating to the deposits could, however, not be obtained. The electricity service providers' records did not permit the application of alternative audit procedures. Consequently, sufficient appropriate audit evidence as to the valuation of these deposits could not be confirmed. Furthermore, the consumer deposits relating to the rotating

electricity debtor accounts were incorrectly allocated in the prior financial year to the service provider's deposit account. The impact of this on the municipality could not be quantified, as the system of the service provider could not identify the deposits of the municipality. Due to the limitations placed on the scope of the work performed relating to deposits, there were no satisfactory alternative audit procedures that I could perform to confirm the valuation and allocation, completeness, rights and obligations, and existence of consumer deposits of the prior financial year.

14. Supporting documentation for corrections amounting to R1 883 893 made to the South African Local Authorities Pension Fund payable, included under trade and other payables in note 10 to the financial statements, could not be obtained. The municipality's records did not permit the performance of alternative procedures. As a result, sufficient appropriate audit evidence regarding the occurrence and accuracy of these adjustments could not be obtained.
15. The municipality did not accrue for invoices in respect of goods and services received amounting to R5 170 569. If these invoices had been accrued the effect would have been to increase trade and other payables by R5 170 569, property, plant and equipment by R2 393 795, operating expenditure by R101 815, employee-related cost by R331, bulk purchases by R1 476 593, finance costs by R429 493 and a decrease of the VAT payable by R435 496, and the accumulated surplus by R333 046, as disclosed in note 10,8,26,25,23,17 and 14 respectively of the financial statements. The effect on unspent grants and income from grants and subsidies, as disclosed in note 13 and 20 of the financial statements, relating to these payments amounted to R2 728 923.
16. Sufficient appropriate audit evidence could not be obtained in respect of the accrual for leave amounting to R3 450 073 (2010: R3 624 104), as disclosed in the statement of financial position and notes 10 and 4 to the financial statements. This was due to inaccurate and incomplete leave records maintained for municipal staff. Furthermore, a difference amounting to R1 810 378 was noted in the prior financial year between the provision recalculated by the municipality, based on leave days available at 30 June 2010, and the leave provision as per the financial statements. In the absence of other supporting documentation and a proper system of control over accumulated leave, I was unable to perform alternative procedures.

Accounts receivable

17. For reasons as detailed below, I was unable to obtain sufficient appropriate audit evidence as to the existence, valuation and presentation of disclosure of receivables amounting to R31 508 855 (2010: R21 636 164) as disclosed in notes 3 to 5 to the financial statements and the statement of financial performance:
 - (a) Several debtor accounts amounting to R4 428 498 (2010:R6 371 595) were in arrears at financial year-end; however, no subsequent payments were made by these debtors for three months after year-end. Additionally, the service agreements entered into between the municipality and the debtors could not be obtained. As a result, sufficient and appropriate audit evidence regarding the existence of these debtors could not be obtained.
 - (b) Supporting documentation for the cash control account amounting to R957 339, as disclosed in note 4 to the financial statements, could not be obtained. As a result, sufficient appropriate audit evidence regarding the existence and valuation of these debtors could not be obtained.

- (c) The International accounting standard, IAS 39, *Financial instruments recognition and measurement*, states that an entity shall assess, at the end of each reporting period, whether there is any objective evidence that a financial asset or group of financial assets is impaired. A provision for the impairment amounting to R61 029 399 has been disclosed in notes 3 to 5 to the financial statements. The provision calculated was not based on the actual balance outstanding per individual debtor as the information could not be obtained from the municipality's financial system. Due to the lack of sufficient information alternative procedures could not be performed. As a result sufficient, appropriate audit evidence as to the accuracy of the provision of doubtful debt and the completeness and valuation of receivables could not be obtained.
- (d) The municipality did not make all the disclosures in terms of the International financial reporting standard, IFRS 7, *Financial instruments disclosure*, which states that an entity shall disclose by class of financial instrument information about the credit quality of financial assets that are neither past due nor impaired. The municipality did not disclose the ageing of accounts receivable per major class of revenue and per the various consumer categories. The reconciliation of the provision for doubtful debts did also not include details pertaining to debts written off during the financial year.

Employee cost

18. In terms of a court-settlement agreement reached during the previous financial year, the municipality was ordered to pay an amount equal to two months' gross salary to each of the respondents. The municipality did not maintain accurate registers to indicate how the liability in terms of the settlement agreement was discharged. Alternative procedures to reconcile the amounts owing per the settlement agreement to payment schedules prepared by the municipality did not provide sufficient evidence that the liability has been discharged. Consequently, sufficient appropriate audit evidence as to the completeness and accuracy of employee related costs and the valuation and completeness of trade and other payables, included in note 10 to the financial statements, for the current and prior financial years could not be obtained.

VAT payable

19. The electricity service provider incorrectly processed VAT transactions against the VAT payable, which did not pertain to the financial affairs of the municipality. Had this transaction been correctly treated VAT payables as disclosed in note 14 to the financial statements would have decreased by R1 266 341 and trade and other payables as disclosed in note 10 to the financial statements would have increased by the same amount.

Unspent conditional grants and receipts

20. No information and details could be obtained for unspent conditional grants amounting to R1 204 047 (2010: R1 556 428) included in note 13 to the financial statements and the revenue for government grants and subsidies amounting to R16 475 549 (2010:R32 106 294). Furthermore, the municipality did not provide accurate reconciliations of the balance of unspent grants at the beginning of the year to the balance unspent at the end of the financial year for grants and subsidies as disclosed in note 20 to the financial statements. Since the municipality's accounting records did not permit the application of reasonable alternative audit procedures, I was unable to obtain all the information and explanations I considered necessary to gain adequate audit assurance as to the valuation, completeness and existence of unspent conditional grants and receipts as well as the occurrence, accuracy and completeness of revenue from grants and subsidies.

Inventory

21. The municipality did not conduct a water inventory count and therefore did not record and value water inventory in accordance with the SA Standards of GRAP, GRAP 12, *Inventory*, for the current and prior financial years. Due to the extent of the weaknesses alternative audit procedures regarding water inventory could not be performed. Consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself as to the completeness and valuation of inventories, as disclosed in the statement of financial position and note 2 to the financial statements.

Provisions

22. Provision has not been made for the environmental rehabilitation costs of restoring the entity's landfill sites. A provision should be made for the entity's present obligation incurred as a consequence of its past use of the landfill sites in accordance with the SA Standards of GRAP, GRAP 19, *Provisions, contingent liabilities and contingent assets*. Due to a lack of adequate information, alternative procedures could not be performed to determine the value of this provision. Consequently, provisions and property, plant and equipment are understated by an unquantifiable amount.
23. Provision has not been made for long service awards as per the South African Local Government Bargaining Council collective agreement on conditions of service for the Free State division of SALGBC. A provision should be made for current service costs incurred in accordance with the International Accounting Standard, *IAS 19 Employee benefits*. Due to a lack of adequate information, alternative procedures could not be performed to determine the value of this provision. Consequently, provisions and expenditure are understated by an unquantifiable amount.

Long- term liabilities

24. I was unable to obtain loan agreements in respect of long-term liabilities amounting to R2 590 896 (2010:R2 849 553) included in long-term liabilities, as disclosed in the statement of financial position and in note 11 to the financial statements. Alternative procedures performed to obtain the agreements from external sources were also not successful. I was thus unable to obtain sufficient appropriate audit evidence as to the existence and valuation of, and the municipality's obligation in respect of, long-term liabilities.

Funds and reserves

25. According to the statement of changes in net assets prior year adjustments amounted to R1 126 862. In accordance with the SA Standards of GRAP, GRAP 3, *Accounting policies*, disclosures pertaining to the nature of the adjustment and the financial statement line items affected should be made. No disclosure has been made in the municipality's financial statements. Furthermore, supporting documentation for adjustments made against the accumulated surplus amounting to R1 136 772, could not be obtained. I was thus unable to obtain sufficient appropriate audit evidence as to the occurrence and accuracy of these adjustments. Due to the lack of supporting documentation alternative procedures could not be performed.
26. Incomplete and inaccurate journals were posted by the municipality to de-recognise finance leases for which the lease term has expired in the prior financial year. Had this transaction been correctly treated the accumulated surplus would have decreased by R795 775, property plant and equipment as disclosed in note 8 to the financial statements by

R620 096, general expenditure as disclosed in note 27 to the financial statements by R186 321 and finance costs as disclosed in note 26 to the financial statements would have increased by R10 642.

27. Included in the statement of changes in net assets are funds relating to the housing development fund amounting to R511 395. The fund showed no movement during the previous five financial years and the municipality no longer carries out activities relating to the fund. It could therefore not be established whether the fund should be maintained. Alternative procedures could not be performed in this regard. I was thus unable to obtain sufficient appropriate audit evidence to determine the existence, rights to and valuation of the fund.

Capital commitments

28. The municipality did not maintain a record of capital commitments already contracted for but not provided for, which provided particulars of all approved capital contracts, the expenditure incurred to date and the municipality's future capital commitment in respect of each contract. The municipality did also not retain records of all capital contracts awarded. A register for retention fees was also not maintained, thus the completeness and valuation of the retention payables could not be determined. Supporting documentation for capital commitments not yet contracted for and authorised could also not be submitted. In the absence of sufficient appropriate audit evidence, there were no satisfactory audit procedures that I could perform to determine the completeness, existence, valuation and obligations of capital commitments amounting to R51 061 359 (2010: R81 676 629), as disclosed in note 31 to the financial statements.

Contingent liabilities

29. The SA Standards of GRAP, GRAP 19, *Provisions, contingent liabilities and contingent assets*, require that an estimate of the financial effect of a contingent liability should be disclosed. No disclosure has been made in note 32.1 to the financial statements for the contingent liability relating to disputes with former employees. As an alternative, legal confirmations were requested from the municipality's attorney's, but where not be obtained. Consequently, I was unable to obtain sufficient appropriate audit evidence as to the completeness, valuation and presentation and disclosure of contingent liabilities included in note 32 to the financial statements.

Irregular expenditure

30. Section 1 of the MFMA defines irregular expenditure as expenditure incurred by a municipality that is not in accordance with a requirement of this act, and which has not been condoned in terms of section 170. Irregular expenditure amounting to R 1 239 179 (2010: R832 109) was incorrectly included as irregular expenditure in note 39 to the financial statements.
31. Section 125(2)(d) of the MFMA requires the municipality to disclose particulars of irregular expenditure in the notes to the financial statements. The Preferential Procurement Policy Framework Act Regulations for the procurement of goods and services was not adhered to for expenditure amounting to R1 522 870. The expenditure was not disclosed as irregular in note 39 to the financial statements.

Distribution losses

32. Distribution losses for electricity amounting to R2 397 712 was disclosed in note 41 to the financial statements. The distribution loss calculated did not include losses for the last five

months of the financial year as accurate and complete data was not available. The entity's records did not permit the application of alternative procedures. Consequently, sufficient appropriate audit evidence as to the completeness, valuation and presentation and disclosure of the distribution losses could not be obtained.

Cash flow statement

33. I was unable to obtain sufficient appropriate audit evidence to determine whether the cash flow statement and the related notes were fairly stated. Taking into account the misstatements and scope limitations identified in the financial statements, as set out in this report, I was unable to practically quantify the misstatements in the cash flow statement and notes thereto. Consequently, I was unable to determine the accuracy, completeness and disclosure of the cash flow statement and related notes.

Opinion

34. 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

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

Restatement of corresponding figures

35. As disclosed in note 18 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of errors discovered during the 2009-10 financial year in the financial statements of the Kopanong Local Municipality at, and for the year ended, 30 June 2010.

Material losses and impairments

36. As disclosed in note 41 to the financial statements material distribution losses amounting to R9 580 579 for the sale of water and R2 397 712 for the sale of electricity was incurred.

37. As disclosed in notes 3 to 5 and note 24 to the financial statements, the provision for impairment of receivables amounted to R61 029 399 and debts written off amounted to R14 784 362 as a result of the municipality's inability to recover debtor accounts.

Financial sustainability

38. As disclosed in note 35 to the financial statements, the municipality is experiencing serious difficulties with regard to debt collection. The municipality also did not settle its debt within 30 days as required by the MFMA and is significantly dependent on the national and provincial governments for its continued sustainability. These conditions, along with other 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. The municipality may therefore be unable to realise its assets and discharge its liabilities in the normal course of business.

Unauthorised, irregular as well as fruitless and wasteful expenditure

39. As disclosed in notes 37 to 39 to the financial statements, unauthorised, fruitless and wasteful and irregular expenditure of R15 915 324 (2010: R58 414 061) R3 588 401 (2010:

R8 366 399) and R38 917 831 (2010: R38 237 464), respectively, was incurred. This was due to overspending on the budgeted votes, payment of interest and penalties and non-compliance with SCM policies and procedures.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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 as set out on page 62 to 73 and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

40. I was unable to conduct the audit of performance against predetermined objectives as the actual performance of the municipality and its service provider for electricity was not adequately reported in the annual performance report as no reporting against predetermined objectives, indicators and targets was recorded for the current and the previous financial years in the annual performance report.

Presentation of information

41. Measures taken to improve performance were not provided in the performance report, as required in terms of section 46(1)(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA).

Reliability of information

42. The reported performance information was deficient in respect of the following criteria:

- Completeness: All actual results and events that should have been recorded have not been included in the reported performance information.

43. The following audit findings relate to the above criteria:

The integrated development plan did not include:

- Key performance indicators determined in accordance with its performance management system, as required by sections 26(i) and 41(1) (a) of the MSA and regulation 9 of the Municipal Planning and Performance Management Regulations, 2001.
- Performance targets determined in accordance with its performance management system, as required by sections 26(i) and 41(1) (b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.
- A financial plan which must include a budget projection for at least the next three years, as required by sections 26(h) of the MSA and regulation 2(3) of the Municipal Planning and Performance Management Regulations, 2001.

Compliance with laws and regulations

Strategic planning and performance management

44. The municipality did not implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players 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 of the municipality did not, by 25 January, assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan as required by section 72(1)(a)(ii) of the MFMA.
46. The accounting officer of the municipality 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.

Budget

47. The municipality 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.

Annual financial statements, performance and annual reports

48. 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.
49. The accounting officer did not make public the council's oversight report on the 2009-10 annual report within seven days of its adoption, as required by section 129(3) of the MFMA.
50. The annual performance report did not contain a comparison of the performance of the municipality and of each external service provider with development priorities, objectives and performance indicators set out in its integrated development plan, as required by section 46 of the MSA.
51. 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 current assets, current liabilities, revenue, expenditure and disclosure items identified by the auditors were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a disclaimer audit opinion.

Audit committees

52. No audit committee was in place for the period 15 December 2010 to 24 March 2011, as required by section 166(1) of the MFMA.
53. The audit committee did not function as required by section 166 of the MFMA, in that:
 - the audit committee did not advise the council of the municipality on matters relating to performance evaluation
 - the audit committee did not respond to the council on any issues raised by the auditor-general in the audit report
 - the audit committee did not meet at least four times a year.
54. The performance audit committee or another committee functioning as the performance audit committee did not perform the following, as required by Municipal Planning and Performance Management Regulation 14:
 - Meet at least twice during the financial year

- Review the quarterly reports of the internal auditors on their audits of the performance measurements of the municipality
- Review the municipality's performance management system and make recommendations in this regard to the council of the municipality
- Submit an auditor's report to the council regarding the performance management system at least twice during the financial year.

Internal audit

55. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes as required by section 45(1)(a) of the MSA and Municipal Planning and Performance Management Regulation 14.
56. 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.
57. 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.
58. The internal auditors of the municipality did not audit the performance measurements on a continuous basis and 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.

Procurement and contract management

59. Supporting documentation, to determine whether awards were made to providers who are persons in service of other state institutions in contravention of the requirements of SCM regulation 44, could not be obtained.
60. 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).
61. Quotations were accepted from prospective providers who are not on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of SCM regulations 16(b) and 17(b).
62. Awards were made to suppliers who did not submit a declaration on their employment by the state or their relationship to a person employed by the state, as per the requirements of SCM regulation 13(c).
63. Awards were made to providers whose tax matters had not been declared by the South African Revenue Services to be in order, as required by SCM regulation 43.
64. 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).
65. Bid specifications were not always drafted by bid specification committees, which consisted of one or more officials of the municipality, as required by SCM regulation 27(3).

66. Final awards and recommendation of awards to the accounting officer were not always made by an adjudication committee, which consisted of at least four senior managers of the municipality, including:
- the CFO or, if the CFO is not available, another senior manager in the budget and treasury office reporting directly to the CFO and designated by the CFO
 - at least one senior SCM practitioner who is an official of the municipality
 - a technical expert in the relevant field, who is an official of the municipality, if the municipality has such an expert as per the requirements SCM regulation 29(2).
67. The performance of contractors or providers was not monitored on a monthly basis as required by section 116(2)(b) of the MFMA.
68. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids as per the requirements of SCM regulations 19(a) and 36(1).

Human resource management and compensation

69. Senior managers directly accountable to the municipal manager did not sign annual performance agreements for the year under review, as required by sections 57(1)(b) and 57(2)(a) of the MSA.
70. The municipal manager did not provide a job description for each post in the staff establishment, as required by section 66(1)(b) of the MSA.

Expenditure management

71. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
72. 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 expenditure when it was incurred and accounted for creditors of the municipality, as required by section 65(2)(b) of the MFMA.
73. The accounting officer did not take reasonable steps to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Conditional grants

74. The municipality did not always submit quarterly reports to the transferring national officer on non-financial performance in respect of the allocation received for the municipal infrastructure grant, as required by section 11(2)(c) of DoRA.

Revenue management

75. 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 and accounted for debtors, as required by section 64(2)(e) of the MFMA.

Asset management

76. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system, which accounts for the assets of the municipality, as required by section 63(2)(a) of the MFMA.

77. 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.

INTERNAL CONTROL

78. 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

Good governance over SCM was not effectively implemented.

Management did not adequately exercise oversight responsibility over compliance with laws and regulations as well as internal control, as key performance indicators and targets were not adequately defined and due to significant deviations in compliance with the MFMA.

Effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored, was not implemented as performance of staff was not adequately measured and due to a lack of adequate staff within the IT department.

Policies and procedures to enable and support an understanding and execution of internal control objectives, processes and responsibilities were not established and implemented as significant findings were noted as a result of inadequate policies and procedures.

The municipality did not adequately monitor the implementation of action plans to address internal control deficiencies. As a result, significant non-compliance and internal control issues were noted.

The municipality did not establish an effective IT governance framework that supports and enables the business, delivers value and improves performance as inadequate policies and procedures had been developed and implemented in this regard.

Financial and performance management

Proper record keeping in respect of revenue and assets was not implemented to ensure that complete, relevant and accurate information is accessible and available to support financial reporting as supporting documentation could not always be obtained.

Controls over the daily and monthly processing and reconciling of transactions were not effectively implemented as suspense accounts were not adequately cleared at year-end and due to the fact that erroneous journal entries were passed by the municipality.

The municipality does not have reliable systems for recording and reporting on payables and expenditure, revenue and receivables and property, plant and equipment.

Formal controls over information technology systems to ensure the reliability of the systems and the availability, accuracy and protection of information were not designed and implemented as there were inadequate controls relating to system access by users.

The review and monitoring of compliance with applicable laws and regulations were not effective, which resulted in significant instances of non-compliance that could have been prevented.

Effective financial and performance systems, processes and procedures and the management thereof had not been adequately implemented. This resulted in the financial statements being subject to material adjustments.

Governance

The municipality did not develop and implement an anti fraud and corruption policy. Independent channels for the communication of suspected fraud and corruption have also not been established.

The internal audit division was not adequately staffed during the financial year and also did not perform internal audit work on predetermined objectives

