

**REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL
LEGISLATURE AND THE COUNCIL ON THEMBELIHLE LOCAL MUNICIPALITY**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the financial statements of the Thembelihle local municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2014, the statements of financial performance, changes in net assets, cash flows and the statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of 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, 2013 (Act No. 2 of 2013) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

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

Basis for disclaimer of opinion

Property, plant and equipment

4. The municipality did not account for assets in accordance with GRAP 17, *Property plant and equipment*. The financial statements are also materially misstated due to assets recognised in the financial statements that do not belong to the municipality and assets not in working condition. Property, plant and equipment as disclosed in note 4 to the financial statements are overstated by R4 756 994.
5. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment due to the municipality not providing supporting documentation for audit purposes and recognising infrastructure assets at global amounts. There is a consequential impact on the surplus for the period, depreciation, accumulated depreciation and the accumulated surplus. I was unable to confirm the property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustments to the property, plant and equipment disclosed at R190 093 965 (2013: R189 015 869) in note 4 to the financial statements were necessary.

Leases

6. The municipality has not separately disclosed finance lease assets in the financial statements, as required by GRAP 13, *Leases*. Finance lease assets were instead included in the various sub-categories of property, plant and equipment in note 4 to the financial statements. In addition, the financial statements are materially misstated because finance leases are overstated by R3 459 865, due to differences identified between the supporting evidence and the amounts recognised in the lease register and financial statements. There is a consequential impact on the surplus for the period, depreciation, accumulated depreciation and accumulated surplus.

Commitments

7. The municipality did not account for commitments in accordance with GRAP 17 *Property, plant and equipment*. Commitments disclosed in note 40 to the financial statements are understated by R891 572 (2013: R4 034 871) due to a work in progress project recognised in the fixed asset register but omitted from the commitments schedule.
8. I was unable to obtain sufficient appropriate audit evidence for the restatement of commitments. As disclosed in note 40 to the financial statements the restatement was made to rectify a prior year limitation. Consequently, I was unable to determine whether any adjustment to the commitments corresponding figure stated at R18 318 618 in the financial statements was necessary.

Operating expenditure

9. The municipality did not account for expenditure in accordance with GRAP 1 *Presentation of financial statements*. Expenditure was recognised in the incorrect financial year, payments were not authorised, incorrect accounting of depreciation and incorrect accounting of VAT. Expenditure as disclosed in note 28 was therefore overstated by R799 524.
10. I was unable to obtain sufficient appropriate audit evidence for general expenditure; as a result I was unable to confirm the expenditure by alternative means. Consequently, I was unable to determine whether any adjustment to the amount of R11 466 424 (2013: R9 586 052), as disclosed in note 28 of the financial statements, for general expenditure were necessary.

Revenue from exchange and non-exchange transactions

11. The municipality did not account for revenue from exchange and non-exchange transactions in accordance to GRAP 23 *Revenue from non-exchange transactions* and GRAP 9 *Revenue from exchange transactions* respectively. Various differences were noted which resulted in revenue being understated by R568 780 in note 23 to the financial statements. The variances were as a result of debtors not being raised, differences between supporting documentation and amounts in the financial statements. This has an impact on the accumulated surplus.
12. I was unable to obtain sufficient appropriate audit evidence from property rates, service charges and other income due to the municipality not providing supporting documentation for audit purposes. I was unable to confirm the revenue from exchange and non-exchange transactions by alternate means. Consequently I was unable to determine whether any adjustments to revenue from exchange and non-exchange transactions disclosed at R20 361 998 (R21 126 937) in note 23 to the financial statements were necessary.

Related party transactions

13. The municipality did not disclose all related party transactions as required by GRAP 20, *related party disclosures* due to the fact that the municipality does not have adequate systems to record related party transactions. The disclosed amount differed from the supporting evidence, noted in note 42 to the financial statements by R13 959 991 (2013: R38 749 318).

Trade and other payables

14. The municipality did not recognise all amounts paid after year-end meeting the definition of a liability in accordance with GRAP 1 *Presentation of financial statements*. As the municipality did not maintain adequate records of outstanding payments received but not yet paid, trade and other payables as disclosed in note 21 to the financial statements were understated by R1 163 735 and operating expenditure was understated by R1 163 735 (2013: R2 941 688). Additionally, the surplus for the period and accumulated surplus are overstated by the same amount.
15. In addition, I was unable to obtain sufficient appropriate audit evidence that management has properly accounted for trade and other payables due to the status of the accounting records. I was unable to confirm the trade and other payables by alternate means. Consequently, I was unable to determine whether any adjustment to trade and other payables stated at R18 609 309 (2013: R15 494 395) in note 21 to the financial statements was necessary.

Irregular expenditure

16. Section 32 of the Municipal Finance Management Act requires disclosure of the particulars of any irregular expenditure incurred by the municipality. The audit revealed various transactions which were in contravention to the supply chain management, resulting in irregular expenditure being understated by R2 508 973 (2013: R18 544 948).
17. In addition, I could not obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for irregular expenditure. As disclosed in note 50 to the financial statements a restatement was made to rectify a prior year misstatement. I was unable to confirm the figure by alternative means. Consequently, I was unable to determine whether any adjustment to irregular expenditure figure stated at R12 425 887 (2013:R51 229 811) is necessary.

Contingencies

18. The municipality did not have adequate systems to identify and disclose contingencies at year end as required by GRAP 19, *Provisions, Contingent Liabilities and Contingent Assets*. I was unable to obtain sufficient appropriate audit evidence that management properly accounted for contingencies for the current and prior year due to the status of the accounting records and adequate systems to identify all contingencies that was not in place. The full extent of this error could not be determined. I was unable to confirm contingencies by alternative means. Consequently, I was unable to determine whether any adjustment to contingencies disclosed in note 41 to the financial statements was necessary.

Investment Property

19. The municipality did not account for investment property in accordance with GRAP 16 *Investment Property*. The comparative figure as disclosed in note 4 to the financial statements was overstated by R659 899.

Employee benefits

20. The municipality did not have adequate systems in place to maintain leave records and leave balances. I could therefore not obtain sufficient appropriate audit evidence relating to accrued leave disclosed as R952 715 (2013: R667 957) in the statement of financial position. Consequently, I was unable to determine whether adjustments were necessary to the amount disclosed for leave.

Value-added tax

21. I was unable to obtain sufficient appropriate audit evidence that management has properly accounted for the value-added tax due to the fact that the municipality did not have adequate systems to identify, record and monitor value-added tax. The weaknesses in the system, misstatements and limitations placed on the scope of the work performed during the audit prevented me from determining the extent of the error or to perform alternative procedures. Consequently, I was unable to determine whether any adjustments were necessary to the amount disclosed as R2 187 468 (2013: R913 162) in note 11 to the financial statements.

Receivables from exchange and non-exchange transactions

22. Receivables from exchange and non-exchange transactions are overstated by R8 639 633 (R36 127 658) due to amounts recognised in note 9 and 12 to the financial statements not agreeing to supporting documentation.
23. I was unable to obtain sufficient appropriate audit evidence for receivables from exchange and non-exchange transactions due to the municipality not providing supporting documentation for audit purposes. I was unable to confirm the receivables from exchange and non-exchange transactions by alternative means. Consequently I was unable to determine whether any adjustments to receivables from exchange and non-exchange transactions disclosed at R184 814 (2013: R86 255) and R1 329 766 (2013: R1 579 836) respectively, in note 9 and 12 to the financial statements were necessary. Furthermore I could not confirm the impairment disclosed to this effect R44 229 834 (2013: R42 708 800).

Prior period errors & change in accounting policies

24. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figures as disclosed in note 43 to the financial statements at R1 660 981 (2013: R1 149 835) and R11 737 173 (2013: R3 135 774) for the statement of financial performance and statement of financial position, respectively. The restatement was made 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 restated corresponding figures in the financial statements was necessary.

Fruitless and wasteful expenditure

25. I could not obtain sufficient appropriate audit evidence for the restatement of the corresponding figures for fruitless and wasteful expenditure. As disclosed in note 49 to the financial statements, the restatement was made to rectify a prior year misstatement. I was unable to determine whether any adjustment to fruitless and wasteful corresponding figure stated at R1 614 555 in the financial statements was necessary.

Disclaimer of opinion

26. 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

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

Significant uncertainties

28. With reference to note 41 to the financial statements, the municipality is the defendant in a case investigated by the Public Protector with regards to traffic fines. The ultimate outcome of the matter cannot presently be determined.

29. The municipality is using unlicensed landfill sites. This is not in accordance to the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008). Penalties to this effect were not determinable.

Revision of the previously issued financial statements

30. Note 43 to the financial statements indicates that the previously issued financial statements for the year ended 30 June 2013, on which I issued an auditor's report dated 29 November, have been revised and reissued.

Restatement of corresponding figures

31. As disclosed in note 43 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of errors discovered during 2014 in the financial statements of the municipality for the year ended, 30 June 2013.

Material losses

32. As disclosed in note 53 to the financial statements, material distribution losses incurred by the municipality were more than the acceptable norm being water 52%, electricity 42%. The amounts were R4 102 875 and R8 400 798 respectively.

Material underspending of the conditional grant

33. The municipality materially under spent conditional grants allocated for capital expenditure to the amount of R11 620 201 (2013: R7 269 148). This had a negative impact on service delivery in the municipality and on the construction of capital projects aimed at improving service delivery. The amounts are disclosed in note 18 to the financial statements.

Going concern

34. Note 46 to the financial statements indicate that the municipality's current liabilities exceeded its current assets by R 28 487 065 (2013: R 23 480 422). There is an annual deterioration in the current ratio indicating a significant deterioration in the working capital position of the municipality. These conditions, along with other matters as set out in this report; indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern, if not funded by National treasury.

Additional matters

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

Unaudited supplementary schedules

36. The municipality provided supplementary information in the financial statements appendix A, B and F do 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.

Unaudited disclosure notes

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

Predetermined objectives

39. 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 for the following selected objectives:
- Provision of a strategy within six months on how to upgrade the N12 and ancillary facilities thereto in order to ensure the safety and well-being of the residents and travellers
 - Provision of 750 formal houses within three years at + 250 houses per year at all levels in order to address the housing backlog and yearly population growth
 - Streamlining of the services delivery process of the local and provincial authorities within the next 3 years in order to ensure upgraded service delivery to the community
 - Facilitation of the approval the IDP to ensure the social Health and well-being of the wider community over a period 3 years
 - Tabling of a 3 year strategy to stimulate local economic growth within the municipal area in order to create jobs and increased wealth to all levels of the society
 - Planning for the provision, maintenance and upgrading of existing and future bulk and link service at all levels for the next 3 years in order to uplift the communities standard of living
40. I assessed the information to determine whether the performance indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).

41. The material findings in respect of the selected objectives are as follows:

Objective: Provision of a strategy within six months on how to upgrade the N12 and ancillary facilities thereto in order to ensure the safety and well-being of the residents and travellers

Usefulness of performance information

42. The FMPPI requires the following:
- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 100% of the targets were not specific.

- Performance targets must be measurable. I could not measure the required performance for 100% of the targets.
 - The period or deadline for delivery of targets must be specified. A total of 100% of the targets were not time bound.
 - Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 100% of the indicators were not well defined.
 - Performance indicators must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 100% of the indicators were not verifiable.
43. This was because management did not adhere to the requirements of the FMPPI due to a lack of proper systems and processes.

Relevance of indicators

44. The FMPPI requires indicators to relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives. A total of 100% of the indicators did not relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives as per the integrated development plan. This was because proper performance planning and management practices had not been developed.

Objective: Provision of 750 formal houses within three years at + 250 houses per year at all levels in order to address the housing backlog and yearly population growth

Usefulness of performance information

45. The FMPPI requires the following:
- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 100% of the targets were not specific.
 - Performance targets must be measurable. I could not measure the required performance for 100% of the targets.
 - The period or deadline for delivery of targets must be specified. A total of 100% of the targets were not time bound.
 - Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 100% of the indicators were not well defined.
 - Performance indicators must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 100% of the indicators were not verifiable.
46. This was because management did not adhere to the requirements of the FMPPI due to a lack of proper systems and processes.

Relevance of indicators

47. The FMPPI requires indicators to relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives. A total of 100% of the indicators did not relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives as per the integrated development plan. This was because proper performance planning and management practices had not been developed.

Objective: Streamlining of the services delivery process of the local and provincial authorities within the next 3 years in order to ensure upgraded service delivery to the community

Usefulness of performance information

48. The FMPPI requires the following:

- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 100% of the targets were not specific.
- Performance targets must be measurable. I could not measure the required performance for 100% of the targets.
- The period or deadline for delivery of targets must be specified. A total of 100% of the targets were not time bound.
- Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 100% of the indicators were not well defined.
- Performance indicators must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 100% of the indicators were not verifiable.

49. This was because management did not adhere to the requirements of the FMPPI due to a lack of proper systems and processes.

Relevance of indicators

50. The FMPPI requires indicators to relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives. A total of 100% of the indicators did not relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives as per the integrated development plan. This was because proper performance planning and management practices had not been developed.

Objective: Facilitation of the approval the IDP to ensure the social Health and well-being of the wider community over a period 3 years

Usefulness of performance information

51. The FMPPI requires the following:

- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 100% of the targets were not specific.
- Performance targets must be measurable. I could not measure the required performance for 100% of the targets.
- The period or deadline for delivery of targets must be specified. A total of 100% of the targets were not time bound.
- Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 100% of the indicators were not well defined.
- Performance indicators must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 100% of the indicators were not verifiable.

52. This was because management did not adhere to the requirements of the FMPPI due to a lack of proper systems and processes.

Relevance of indicators

53. The FMPPI requires indicators to relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives. A total of 100% of the indicators did not relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives as per the integrated development plan. This was because proper performance planning and management practices had not been developed.

Objective: Tabling of a 3 year strategy to stimulate local economic growth within the municipal area in order to create jobs and increased wealth to all levels of the society

Usefulness of performance information

Measurability of indicators and targets

54. The FMPPI requires the following:

- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 100% of the targets were not specific.
- Performance targets must be measurable. I could not measure the required performance for 100% of the targets.
- The period or deadline for delivery of targets must be specified. A total of 100% of the targets were not time bound.
- Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 100% of the indicators were not well defined.
- Performance indicators must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 100% of the indicators were not verifiable.

55. This was because management did not adhere to the requirements of the FMPPI due to a lack of proper systems and processes.

Relevance of indicators

56. The FMPPI requires indicators to relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives. A total of 100% of the indicators did not relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives as per the integrated development plan. This was because proper performance planning and management practices had not been developed.

Objective: Planning for the provision, maintenance and upgrading of existing and future bulk and link service at all levels for the next 3 years in order to uplift the communities standard of living

Usefulness of performance information

57. The FMPPI requires the following:

- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 100% of the targets were not specific.
- Performance targets must be measurable. I could not measure the required performance for 100% of the targets.
- The period or deadline for delivery of targets must be specified. A total of 100% of the targets were not time bound.

- Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 100% of the indicators were not well defined.
 - Performance indicators must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 100% of the indicators were not verifiable.
58. This was because management did not adhere to the requirements of the FMPPI due to a lack of proper systems and processes.

Relevance of indicators

59. The FMPPI requires indicators to relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives. A total of 100% of the indicators did not relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives as per the integrated development plan. This was because proper performance planning and management practices had not been developed.

Compliance with legislation

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

Strategic and annual planning process

61. The local community was not consulted by means of a municipal wide structure for community participation or through a forum that enhances community participation in drafting and implementing the Integrated development plan (IDP), as required by section 28 of the Municipal Systems Act (MSA) and Municipal planning and performance management regulation 15(1)(a)(i).
62. The municipality did not give effect to its integrated development plan or conduct its affairs in a manner which was consistent with its integrated development plan this was due to lack of funding, as required by section 36 of the MSA, section 21(2)(a) of the Municipal Finance Management Act (MFMA) and Municipal planning and performance management regulation 6.
63. Revisions to the service delivery and budget implementation plan were not approved by the council after the approval of the adjustments budget, as required by section 54(1)(c) of the MFMA.
64. The municipality did not establish a performance management system, as required by section 38(a) of the Municipal Systems Act.
65. Key performance indicators, including input, output and outcome indicators, in respect of each of the development priorities and objectives were not set out in the IDP, as required by section 41(1)(a) of the MSA and the Municipal planning and performance management regulation 1 and 9(1)(a).
66. Measurable performance targets for the financial year with regard to each of the development priorities or objectives and key performance indicators were not set in the IDP, as required by section 41(1)(b) of the MSA and the Municipal planning and performance management regulations 12(1) and 12(2)(e).
67. The performance of the municipality were not assessed during the first half of the financial year this is based on the fact that there was no assessment on performance information, as required by section 72(1)(a)(ii) of the MFMA.

68. The annual performance report for the financial year under review [was not prepared and/or was not included in the annual report, as required by section 46 of the MSA and section 121(3)(c) of the MFMA.
69. The annual performance agreements for the municipal manager and all senior managers are not linked to the measurable performance objectives approved with the budget and to the service delivery budget implementation plan as required in terms of section 53(1)(c)(iii) of the MFMA and section 57(1)(b) of the MSA.

Budgets

70. 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 Municipal Finance Management Act.

Financial statements, performance and annual report

71. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act (MFMA). Material misstatements of non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a disclaimer audit opinion.
72. Oversight report, containing comments on the annual report, was not adopted by council within two months from the date on which the 2013 annual report was tabled, as required by section 129(1) of the Municipal Finance Management Act.

Audit committee

73. An audit committee was not in place, as required by section 166(1) of the Municipal Finance Management Act.

Procurement and Contract management

74. 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).
75. Sufficient appropriate audit evidence could not be obtained that bid specifications were drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).
76. 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 regulation 22(1) & 22(2).
77. Awards were made to providers who are in the service of other state institutions or whose directors/ principal shareholders are in the service of other state institutions], in contravention of MFMA 112(j) and SCM regulations 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).
78. 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).

Human resource management

79. The senior managers directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) Municipal Systems Act.
80. Sufficient audit evidence was not obtained to validate if senior managers and municipal manager were appointed without having met the prescribed minimum competency levels as required by section 54A (2) of the Municipal Systems Act.
81. A manager directly accountable to municipal managers was appointed without submitting disclosure of financial interests in contravention of regulation 4 of GNR 805.

Expenditure management

82. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the Municipal Finance Management Act.
83. An adequate management, accounting and information system was not in place which accounted for creditors, as required by section 65(2)(b) of the Municipal Finance Management Act.
84. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure, fruitless and wasteful expenditure, as required by section 62(1)(d) of the Municipal Finance Management Act.
85. 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 Municipal Finance Management Act.

Transfer of funds

86. The municipality did not evaluate its performance in respect of programmes funded by the National Treasury within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act.
87. The municipality did not submit quarterly performance reports to 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 Division of Revenue Act.

Revenue management

88. A credit control and debt collection policy was not implemented, as required by section 96(b) of the Municipal Systems Act and section 62(1)(f)(iii) of Municipal Finance Management Act.
89. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the Municipal Finance Management Act.
90. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the Municipal Finance and Management Act.

Asset management

91. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the Municipal Finance Management Act.
92. Capital assets were sold that were needed to provide the minimum level of basic municipal service, in contravention of section 14(1) of the Municipal Finance Management Act.
93. Capital assets were sold without the approval of the council and the accounting officer, as required by section 14(2)(a) of the Municipal Finance Management Act.

Liability management

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

Consequence management

95. Unauthorised, Irregular, Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the Municipal Finance Management Act.

Internal control

96. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. 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 non-compliance with legislation included in this report.

Leadership

97. Key management positions were vacant for most part of the year and in the prior year. This created a leadership vacuum. Monitoring of the internal control environment was therefore not done and resulted in the municipality not prioritising compliance to laws and regulations, financial reporting and performance reporting.
98. Senior management of the entity did not set the correct tone at the top. Senior management did not adhere to internal controls, which resulted in various instances of irregular as well as fruitless and wasteful expenditure being incurred and other material misstatements in the financial statements not being detected by management.
99. The municipality did not employ sufficient resources to ensure municipal functions related to financial and performance reporting and compliance to laws and regulations can be executed in good quality.
100. The accounting officer did not communicate the commitment to quality in preparing the annual financial statements.
101. Action plans to address prior year audit findings were not detailed enough to isolate responsibility per root cause furthermore it was not monitored by the leadership of the municipality, resulting in the recurrence of material misstatements in the annual financial statements.
102. The leadership did not regularly monitor management's compliance with laws, regulations and internally designed policies and procedures. As a result, significant non-compliance issues were noted

Financial and performance management

103. Records management and maintenance disciplines should be refined, included in the daily key controls, and reviewed and monitored at the appropriate level of management.
104. Management did not review the financial statement to ensure the achievement of fair presentation, which resulted in the material misstatements and amendments to the financial statements.
105. Management did not implement daily and monthly controls as designed for the entity's business processes.
106. Consultants were sought to assist with the preparation of annual financial statement. This did not assist as the accounting records were not properly filed nor maintained

107. Manual or automated controls were not designed to ensure that the transactions had occurred, were authorised, and were completely and accurately processed. Documentation supporting amounts disclosed in the financial statements was not always available.
108. Management did not document and approve internal policies and procedures to address the process of collecting, recording, processing, monitoring and reporting on predetermined objectives. Consequently, performance systems, processes and procedures had not been designed and implemented.

Governance

109. The risk of material misstatement due to fraud was not considered. Sufficient controls and segregation of duties to prevent or detect fraudulent data and assets misappropriation were not implemented and maintained.
110. The municipality did not respond to the assessed risks by determining a risk strategy and action plan to manage the identified risks. Consequently, internal controls were not selected and developed to prevent, detect and correct material misstatements in financial reporting and reporting on predetermined objectives.
111. The audit committee was not established during the year. Consequently, the committee did not approve the internal audit plan and did not oversee the implementation of the matters reported by the internal audit unit.

OTHER REPORTS

Investigations

112. The municipality disclosed that an investigation by the Public Protector is still underway in relation to issuing of traffic fines.

Auditor - General
Kimberley

30 November 2014



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence