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Table 122: Auditor-General Report on Service Delivery Performance

Auditor-General Report on Service Delivery Performance: 2011/12*	
Status of audit report**:	
Non-Compliance Issues	Remedial Action Taken
No effective consultation with the local community in the drafting and implementation of the IDP.	The review of IDP is conducted and attendance registers are signed. A proper record keeping of these documents will be maintained and availed to the auditors at the time of audit.
The IDP was not reviewed annually in accordance with an assessment of its performance measurements.	The IDP is reviewed annually and attendance registers are signed. A proper record keeping of these documents will be maintained and availed to the auditors at the time of audit.
The municipality did not establish a performance management system	The municipality will establish a performance management system and implement it in accordance with the policy. The target date for implementation is late in 2012/13.
The municipality did not monitor performance with regard to the development priorities and objectives against key performance indicators and targets set.	The SDBIP be established and monitored quarterly
* This table will be completed prior to the publication of the Annual report but following the receipt of the Auditor- General Report on Service Delivery Performance Year 0	
** Inclusion of "Status" depends on nature of AG's remarks on Performance Data.	

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## AUDITOR GENERAL REPORT ON THE FINANCIAL STATEMENTS: 2011/12

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

#### REPORT ON THE FINANCIAL STATEMENTS

##### Introduction

1. I was engaged to audit the financial statements of the Moqhaka Local Municipality set out on pages \*X to Xx, which comprise the statement of financial position as at 30 June 2012, the statements of financial performance, changes in net assets and cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

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

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South

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Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditor-General's responsibility**

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

## **Basis for disclaimer of opinion**

### **Property, plant and equipment**

4. I was unable to obtain sufficient appropriate audit evidence for property plant and equipment of R1 165 581 370 (2011: R1 143 676 149), as disclosed in note 13 to the financial statements, to substantiate the values recorded in the asset register, that all these assets do exist and that all the municipality's assets are included in the asset register. In addition, the municipality did not account for depreciation on buildings and infrastructure assets, review the residual values and useful lives and perform an impairment assessment of all the municipality's assets at each reporting date in accordance with SA Standards of GRAP, GRAP 17, *Property, plant and equipment* and GRAP 26, *Impairment of cash-generated assets*. I was unable to confirm this balance by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the amounts disclosed for property, plant and equipment.

### **Receivables from exchange transactions**

The municipality did not account for all debts written off in the current financial year and also did not correctly account for value-added tax (VAT) for those debtors that were impaired, which resulted in receivables being overstated by R83 501 968, VAT receivable overstated by R7 579 540 and debt impairment expense understated by R91 081 508. In addition, I was unable to obtain sufficient appropriate audit evidence to confirm indigent debtors of R87 824 181 as well as the existence of receivables of R46 246 347 (2011: R54 915 833), as disclosed in note 4 to the financial statements. I was unable to confirm the receivables by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for receivables.

### **Irregular expenditure**

6. The municipality did not disclose all the irregular expenditure in the notes to the financial statements, as required by section 125(2)(d)(i) of the MFMA. The municipality made payments in contravention of the supply chain management (SCM) requirements which were not included in irregular expenditure, resulting in irregular expenditure being understated by R52 166 980 (2011: R13 858 034). In addition, sufficient appropriate audit evidence was not available for irregular expenditure written off of R88 698 826, as

disclosed in note 50 to the financial statements. I was unable to confirm the amount

condoned by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for irregular expenditure.

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## Investment properties

7. The municipality did not account for all the investment properties in terms of SA Standards of GRAP, GRAP 16, *Investment property*. The municipality accounted for properties as investment properties which do not comply with the definition of investment properties and also accounted for certain investment properties at re-valued amounts while the municipality has adopted the cost model. Consequently, investment property as disclosed in note 11 to the financial statements is overstated by R18 119 662, property, plant and equipment as disclosed in note 13 are understated by R9 313 774, inventory as disclosed in note 5 is understated by R3 227 027 and accumulated surplus is overstated by R5 578 861.

## Employee benefit obligation

8. The municipality did not measure its post-employment benefit obligation in terms of the requirements outlined in South African Statement of Generally Accepted Accounting Practice, IAS 19 *Employee benefits*. In the absence of an updated actuarial valuation, I was unable to determine the adjustments required to the obligation of R70 931 000 (2011: R61 956 000) as disclosed in note 14 to the financial statements.

## Fruitless and wasteful expenditure

9. The municipality incurred expenditure which was made in vain and would have been avoided had reasonable care been exercised. The municipality did not disclose all fruitless and wasteful expenditure in the notes to the financial statements, as required by section 125(2)(d)(i) of the MFMA, resulting in fruitless and wasteful expenditure being understated. In addition, sufficient appropriate audit evidence was not available for fruitless and wasteful expenditure written off of R19 275 792, as disclosed in note 51 to the financial statements. I was unable to confirm the amount condoned by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed.

## Reticulation losses

10. I was unable to obtain sufficient appropriate audit evidence for the calculated electricity losses due to tampering or theft of R25 443 409, as disclosed in note 49 to the financial statements. I was unable to confirm the disclosed balance by alternative means. Consequently, I was unable to determine whether any adjustments to the disclosed reticulation losses balance were necessary.

## Provisions

11. The municipality did not have adequate systems in place to ensure that all the applicable factors were taken into consideration with the calculation of the rehabilitation of landfill sites, and that all sites utilised are provided for in the calculation. I was unable to obtain sufficient appropriate audit evidence to confirm the completeness and valuation of the provision for landfill sites of R2 033 624 (R2011: R1 823 157), as disclosed in note 22 to the financial statements. I was unable to confirm the provision by alternative means. Consequently, I was unable to determine whether any adjustments relating to the provision were necessary.
12. Sufficient appropriate audit evidence could not be obtained that the municipality measured the long-service bonus provision in terms of the requirements outlined in South African Statement of Generally Accepted Accounting Practice, IAS 19 *Employee benefits*. I was unable

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to confirm this provision by alternative means. Consequently, I was unable to determine whether any adjustments to the provision for long-service bonus of R6 950 432 (2011: R1 091 685), as disclosed in note 22, were necessary.

## Capital commitments

13. The municipality did not have adequate systems in place to accurately account for unrecognised contractual commitments at year-end, which resulted in capital commitments as disclosed in note 53 to the financial statements being overstated by R16 178 528. In addition, sufficient appropriate audit evidence could not be obtained to confirm the completeness of capital commitments of R110 778 465, as disclosed in note 53 to the financial statements. I was unable to confirm the completeness of the amount disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for capital commitments.

## Payables from exchange transactions

14. The municipality did not have adequate systems in place regarding the administration of leave, which resulted in the leave pay accrual as disclosed in note 19 to the financial statements being overstated by R8 983 954 and employee-related costs disclosed in note 32 being overstated by R8 983 954. Additionally, the surplus for the year and the accumulated surplus are understated by R8 983 954, respectively.

## Inventory

15. I was unable to obtain sufficient appropriate audit evidence for water inventories of R260 639 (2011: R244 802) as disclosed in note 5 to the financial statements. I was unable to confirm the completeness of this balance by alternative means. Consequently, I was unable to determine whether any adjustments to the disclosed water inventory balance were necessary.

## Aggregation of immaterial uncorrected misstatements

16. The financial statements as a whole are materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following elements making up the statement of financial position and the statement of financial performance:

Service charges reflected as R240 522 278 in note 26 to the financial statements are understated by R2 116 450.

In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm or verify the following elements by alternative means:

Government grants and subsidies income of R2 985 000, as included in the disclosed balance of 8196 012 806 (note 24)

Personnel expenditure of 8711 354, as included in the disclosed balance of R156 390 151 (note 32)

As a result, I was unable to determine whether any further adjustments to these elements were necessary.

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## **Disclaimer of opinion**

17. 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**

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

## **Restatement of corresponding figures**

19. As disclosed in note 45 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of errors discovered during 2011/12 in the financial statements of the Mot:peke Local Municipality at, and for the year ended, 30 June 2011.

## **Material losses and impairments**

20. As disclosed in note 4 and note 49 to the financial statements, material losses to the amount of R225 502 181 (2011: R206 400 287) and R59 321 114 (2011: R43 537 967), respectively, were incurred as a result of a write-off of irrecoverable trade debtors and distribution losses incurred relating to water and electricity.

## **Going concern**

21. **Note 47 to** the financial statements indicates that the Mogi'lake Local Municipality's current liabilities exceeded its total assets by R122 million (2011: R125 million). This matter, along with other matters as set forth in note 47, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

## **Additional matters**

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

## **Supplementary explanations of budget variances presented outside the financial statements**

23. The supplementary explanations of budget variances contained in appendix E(1) do not form part of the financial statements. I have not audited these explanations and accordingly do not express an opinion thereon.

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

24. The draft annual report of the municipality for the year ended 30 June 2012 was not submitted for audit purposes. In the absence of this report, possible inconsistencies between the financial statements and other information published with the financial statements could not be identified.

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## Unaudited supplementary schedule

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

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

### Predetermined objectives

27. The annual performance report included in the annual report was not presented in time for audit and consequently my findings below are limited to the procedures performed on the strategic planning and performance management documents.
28. The information was assessed to determine whether performance indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.
29. There were no material findings on the strategic planning and performance management documents concerning the measurability and relevance of the information.

### Compliance with laws and regulations

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

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

31. The municipal council did not consult with the local community in the drafting and implementation of the municipality's IDP by means of a municipal-wide structure for community participation, as required by section 28 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) and Local Government: Municipal Planning and Performance Management (MPPM) regulation 15(1)(a)(i).
32. The municipality did not afford the local community at least 21 days to comment on the final draft of its IDP before the plan was submitted to council for adoption, as required by MPPM regulation 15(3).
33. The municipal council did not review its IDP annually in accordance with an assessment of its performance measurements in terms of section 41 and to the extent that changing circumstances demanded, as required by section 34 of the MSA and MPPM regulation 3.
34. The municipality did not establish a performance management system, as required by section 38(a) of the MSA and MPPM regulation 7(2)(c),(e), (f) and (g).
35. The municipality did not establish mechanisms to monitor and review its performance management system, as required by section 40 of the MSA.

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36. The municipality did not monitor performance with regard to each of those development priorities and objectives and against the key performance indicators and targets set as required by section 41 of the MSA.

## **Budget**

37. The accounting officer did not assess the municipality's performance for the first half of the financial year, as required by section 72(1) and 72(1)(a)(ii) of the MFMA.
38. Quarterly reports on the implementation of the budget and financial state of affairs of the municipality were not submitted to council within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.
39. Sufficient appropriate audit evidence could be obtained that revisions to the service delivery and budget implementation plan were approved by the council after the approval of the adjustments budget, as required by section 54(1)(c) of the MFMA.
40. Sufficient appropriate audit evidence could not be obtained that monthly budget statements were submitted to the mayor and relevant provincial treasury, as required by section 71(1) of the MFMA.

## **Annual financial statements, performance reports and annual reports**

41. 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 non-current assets, current assets, liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records provided, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a disclaimer audit opinion.

## **Audit committee**

42. The audit committee did not advise the council on matters relating to internal financial control and internal audits, performance management and performance evaluation, as required by section 166(2)(a) of the MFMA.
43. The audit committee did not review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the entity, its efficiency and effectiveness and its overall level of compliance with the MFMA and DoRA, as required by section 166(2)(b) of the MFMA.
44. The audit committee did not respond to the council on the issues raised in the audit reports of the Auditor-General, as required by section 166(2)(c) of the MFMA.
45. The audit committee did not review the municipality's performance management system and make recommendations to the council, as required by MPPM regulation 14(4)(a)(ii).

## **Internal audit**

46. The internal audit did not audit the results of performance measurements, as required by section 45(1)(a) of the MSA and MPPM regulation 14(1)(a).
47. The internal audit unit did not assess the functionality of the performance management system, whether the performance management system complied with the requirements of the MSA and the extent to which the performance measurements were reliable in

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measuring the performance of the municipality on key and general performance indicators, as required by MPPM regulation 14(1)(b)(i),(ii) and (iii).

48. The internal audit unit did not audit the performance measurements on a continuous basis and submit quarterly reports on their audits to the municipal manager and the performance audit committee, as required by MPPM regulation 14(1)(c).

## **Expenditure management**

49. Unauthorised, irregular and fruitless and wasteful expenditure was not recovered from the liable person, as required by section 32(2) of the MFMA.
50. 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.
51. The accounting officer did not take reasonable steps to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the **MFMA**.

## **Conditional grants received**

52. The municipality did not comply with the requirements of the grant framework, as required by section 12(1) of oRA.

## **Revenue management**

53. A credit control and debt collection policy was not implemented, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of the MFMA.

## **Asset management**

54. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
55. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.
56. The required reports describing the investment portfolio of the municipality was not submitted to the mayor at the end of each month, as required by the municipal investment regulation 9(1).

## **Procurement and contract management**

57. Goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations as required by the municipal SCM regulation 17(a) and (c).
58. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
59. 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).
60. Quotations were accepted from prospective providers who are not registered on the list of accredited prospective providers and did not meet the listing requirements prescribed by the SCM policy, in contravention of SCM regulations 16(b) and 17(b).



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61. 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).
62. 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) and 22(2).
63. Sufficient appropriate audit evidence could not be obtained that bids were evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality, as required by SCM regulation 28(2).
64. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding and quotations, as required by SCM regulations 21(b) and 28(1)(a) and the preferential procurement regulations.
65. Sufficient appropriate audit evidence could not be obtained that bid adjudication was always done by committees which were composed in accordance with SCM regulation 29(2).
66. Awards were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).
67. 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, 2000 (Act No. 5 of 2000) (PPPFA) and SCM regulation 28(1)(a).
68. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the PPPFA and its regulations.
69. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders that scored the highest points in the evaluation process, as required by of section 2(1)(f) of PPPFA.
70. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
71. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
72. Contracts and quotations were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.
73. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded only to bidders who had submitted a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
74. A list of accredited prospective providers was not in place for procuring goods and services through quotations, as required by SCM regulation 14(1)(a).

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75. The prospective providers list for procuring goods and services through quotations was not updated at least quarterly to include new suppliers that qualify for listing, and prospective providers were not invited to apply for such listing at least once a year as per the requirements of SCM regulation 14(1)(a)(ii) and 14(2).

## **Financial misconduct**

76. Sufficient appropriate audit evidence could not be obtained that investigations were instituted into all allegations of financial misconduct against officials of the municipality, as required by section 171(4)(a) of the MFMA.

## **Human resource management and compensation**

77. The senior managers directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) of the MSA.
78. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury, as required by minimum competency levels regulation 14(2)(a).
79. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies as required by the minimum competency levels, regulation 14(2)(b).

## **Environmental management**

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

## **Internal control**

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

## **Leadership**

82. Management failed to implement comments and recommendations made by the auditors in the previous financial year due to a proper action plan not being compiled and implemented at the municipality.
83. The accounting officer did not hold staff of the municipality accountable due to the performance management system not being implemented.
84. The accounting officer did not establish processes to prevent and detect unauthorised, irregular, fruitless and wasteful expenditure.

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## Financial and performance management

85. Staff members do not understand performance information reporting requirements and action was not taken during the year to implement requirements due to the IDP manager position being vacant and staff not receiving appropriate training in this regard.
86. No proof could be obtained that the use of consultants was monitored by the chief financial officer to ensure proper transfer of skills to permanent finance staff members.
87. The accounting officer did not compile and approve delegations when the new council was appointed at the municipality.
88. The accounting officer did not establish internal controls to ensure that all laws and regulations are complied with.

## Governance

89. The accounting officer did not ensure that a risk assessment was performed at the municipality. The potential risks to the municipality were therefore not identified and addressed.
90. The internal audit unit was not sufficiently staffed and effective during the year. The internal audit unit therefore did not assist management in evaluating internal controls to determine the effectiveness and efficiency thereof.
91. The audit committee did not perform all its functions due to the internal audit unit not being effective.
92. The audit committee members' contracts expired towards the end of the financial year. The new audit committee was not fully functional to review the accuracy and completion of the financial statements before submission to the auditors.

Bloemfontein

30 November 2012



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## COMMENTS ON AUDITOR-GENERAL'S OPINION 2011/12:

The Auditor General report for the 2011/12 financial year was a disclaimer of audit opinion. The main causes of these are non-availability of the supporting documents on the valuation of the infrastructure assets and the assessment of the residual values and the assets' useful lives.

Matters around procurement deficiencies also led to identification of further irregular expenditure. The municipality is tightening the system of procurement to deal with deviations in a strict manner of emergencies. The existence of indigent debtors is one big area that to disclaimer. The Auditor General's findings give a direct weakness of the internal controls to subsidize non-qualifying people as no supporting evidence could be obtained regarding the existence and validity of indigent debtors.

The municipality will utilize an opportunity of having the interim audit being conducted on the infrastructure assets verification and valuation and develop an action plan that has clear timelines and responsible officials.

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## COMMENTS ON MFMA SECTION 71 RESPONSIBILITIES:

Section 71 of the MFMA requires municipalities to return a series of financial performance data to the National Treasury at specified intervals throughout the year. The Chief Financial Officer states that these data sets have been returned according to the reporting requirements.

Signed (Chief Financial Officer)..... Dated

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