

# **REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND THE COUNCIL ON THE 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 xx to xx, which comprise the statement of financial position as at 30 June 2014, the statements of financial performance, changes in net assets, cash flows, comparison of budget and actual amounts and appropriation statement 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 the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 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 review the residual values and useful lives and perform an impairment assessment of infrastructure assets at each reporting date in accordance with SA Standards of GRAP, GRAP 17, *Property, plant and equipment* (GRAP 17) and SA Standards of GRAP, GRAP 26, *Impairment of cash-generated assets* (GRAP 26). I was not able to determine the correct net carrying amount of infrastructure assets as it was impracticable to do so. In addition, I was unable to obtain sufficient appropriate audit evidence regarding infrastructure assets, as the municipality did not provide me with documentation to support the cost prices/valuation of infrastructure assets and evidence that all infrastructure additions were accounted for in terms of the requirements of GRAP 17. Furthermore, not all infrastructure assets accounted for in the asset register could be verified and some infrastructure assets and land were not included in the asset register. I was unable to confirm infrastructure assets and land by alternative means. Consequently, I was unable to determine whether any further adjustment relating to infrastructure assets stated at R1 379 512 686 (2013: R1 469 907 004) and land stated at R8 493 631 (2013: R8 493 631) in note 12 to the financial statements was necessary.

### **Service charges**

5. I was unable to obtain sufficient appropriate audit evidence that all electricity and water service charges were accounted for on the billing system for the current year. During 2013, incorrect tariffs were levied to consumer accounts, resulting in service charges and receivables from exchange transactions being understated by R31 510 483 for the year then ended. Additionally, there is a consequential impact on the surplus for the 2013 period and the accumulated surplus thereof. In addition, support for the accuracy of meter readings relating to electricity and water in the previous financial year could also not be obtained. I was unable to confirm the income by alternative means. Consequently, I was unable to determine whether any further adjustment to sale of electricity and water stated at R211 392 481 (2013: R193 930 550) and R75 237 383 (2013: R72 734 835) respectively in note 24 to the financial statements was necessary.

### **Irregular expenditure**

6. The municipality did not disclose all irregular expenditure in the notes to the financial statements, as required by section 125(2)(d)(i) of the MFMA. The municipality incurred expenditure in contravention of the supply chain management (SCM) requirements, resulting in irregular expenditure being understated by R168 161 582 (2013: R69 532 894). During 2013, the municipality disclosed irregular expenditure in the financial statements that did not meet the definition of irregular expenditure, resulting in an overstatement of R54 588 840. In addition, I was unable to obtain sufficient appropriate audit evidence regarding irregular expenditure of R88 698 826 written off in the 2012 financial year, which formed part of the opening balance of 2013, as disclosed in note 53 to the financial statements. I was unable to confirm the amount written off by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the amount disclosed for irregular expenditure stated at R144 794 943 (2013: R144 794 943) in the financial statements.

### **Investment property**

7. The municipality did not determine the fair value of all investment properties, as required by SA Standards of GRAP, GRAP 16, *Investment property* (GRAP 16), due to adequate controls not being implemented to perform the fair value evaluation. I was unable to determine the fair values of these investment properties as it was impracticable to do so. In addition, I was unable to obtain sufficient appropriate audit evidence regarding investment property, as the municipality duplicated amounts as investment property and other assets and support for the correct classification was not provided. I could also not confirm that all investment property was accounted for and that the investment property accounted for was the property of the municipality. I was unable to confirm investment property by alternative means. Consequently, I was unable to determine whether any adjustments relating to investment property stated at R114 973 505 (2013: R114 973 505) in note 11 to the financial statements were necessary.

### **Capital commitments**

8. The municipality did not have adequate systems in place to properly account for all contractual commitments, as required by SA Standards of GRAP, GRAP 1, *Presentation of financial statements* (GRAP 1) at year-end, which resulted in capital commitments as disclosed in note 57 to the financial statements being overstated by R1 577 813 (2013: R7 793 698). In addition, I was unable to obtain sufficient appropriate audit evidence regarding capital commitments due to an inadequate contract management system and an incomplete contract register. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any further



adjustments relating to capital commitments stated at R46 122 443 (2013: R26 772 834) were necessary.

#### **Depreciation and amortisation**

9. I was unable to obtain sufficient appropriate audit evidence regarding depreciation on property, plant and equipment due to the limitation placed on my audit of property, plant and equipment. I was unable to confirm depreciation by alternative means. Consequently, I was unable to determine whether any adjustments relating to depreciation and amortisation stated at R175 527 801 (2013: R249 682 449) in note 34 to the financial statements were necessary.

#### **Accumulated surplus**

10. I was unable to obtain sufficient appropriate audit evidence for the correction of prior period errors due to unexplained differences. I was unable to confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustments relating to accumulated surplus stated at R1 795 421 720 (2013: R1 852 096 019) in the statement of changes in net assets to the financial statements were necessary.

#### **Cash flow statement**

11. I was unable to obtain sufficient appropriate audit evidence regarding the cash flow statement due to the limitations placed on my audit of various components of the financial statements as well as differences between my calculations and amounts disclosed in the cash flow statement. I was unable to confirm the cash flow statement by alternative means. Consequently, I was unable to determine whether any adjustments relating to the cash flow statement in the financial statements were necessary.

#### **Statement of comparison of budget and actual amounts**

12. The municipality did not disclose the final approved adjustment budget figures in the financial statements in accordance with SA Standards of GRAP, GRAP 24, *Presentation of budget information in financial statements* (GRAP 24). I identified various material differences between the disclosed budgeted amounts and the final adjustment budget, resulting in the figures disclosed under differences between final budget and actual expenditure being materially misstated.

#### **Aggregation of immaterial uncorrected misstatements**

13. The financial statements were materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following items making up the statement of financial position, statement of financial performance and the notes to the financial statements:

- Value-added tax (VAT) receivables reflected as R8 202 493 (2013: R19 148 797) in note 8 were overstated by R23 384 428 (2013: R7 942 414).
- Various expenditures reflected in the statement of financial performance as R713 899 399 was understated by R4 901 831.

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

- Personnel expenditure as reflected in the statement of financial performance of R18 619 371 as included in the disclosed balance of R162 114 526.

- Various expenditure reflected in the statement of financial performance of R7 139 177 as included in the disclosed balance of R713 899 399.

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

#### **Disclaimer of opinion**

14. 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**

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

#### **Restatement of corresponding figures**

16. As disclosed in note 48 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 Moqhaka Municipality at, and for the year ended, 30 June 2013.

#### **Material losses**

17. As disclosed in note 52 to the financial statements, material electricity and water losses of R39 841 257 (2013: R32 433 523) and R15 819 911 (2013: R10 599 090), respectively, were incurred as a result of line losses, tampering and theft.

#### **Material impairments**

18. As disclosed in note 4 to the financial statements, a provision for impairment of debtors of R205 168 671 (2013: R172 555 029) has been made with regard to consumer debts of R266 684 862 (2013: R231 195 704).

#### **Going concern**

19. Note 50 to the financial statements indicates that the Moqhaka Local Municipality incurred a net loss of R57 million (2013: R68 million). This condition, along with other matters as set out in note 50, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

#### **Unauthorised expenditure**

20. As disclosed in note 55 to the financial statements, the municipality incurred unauthorised expenditure of R223 836 571 (2013: R155 977 193) during the year under review due to expenditure being incurred in excess of the limits of the amounts provided in the votes of the approved budget.

#### **Additional matter**

21. I draw attention to the matter below. My opinion is not modified in respect of this matter.



### **Unaudited disclosure notes**

22. 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**

23. 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 development priorities presented in the annual performance report, 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**

24. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2014:

- IDP Priority 1: Water provision on pages 47 to 53
- IDP Priority 2: Sanitation provision on pages 54 to 58
- IDP Priority 3: Roads and storm water on pages 79 to 83
- IDP Priority 4: Electricity and energy on pages 59 to 67
- IDP Priority 5: Housing on pages 74 to 77
- IDP Priority 6: Solid waste on pages 68 to 73

25. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

26. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether 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).

27. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

28. The material findings in respect of the selected development priorities are as follows:

## **Integrated development plan priority 1: Water provision**

### **Usefulness of reported performance information**

29. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 38% of the reported indicators were not consistent with those in the approved service delivery and budget implementation plan. This was due to a lack of monitoring and review of the reporting documents by management.

### **Reliability of reported performance information**

30. The FMPPi requires municipalities to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information. This was due to limitations placed on the scope of my work due to the fact that the municipality could not provide sufficient appropriate evidence in support of the reported performance information.

## **Integrated development plan priority 2: Sanitation provision**

### **Reliability of reported performance information**

31. The FMPPi requires municipalities to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not valid, accurate and complete when compared to the source information or evidence provided. This was due to a lack of monitoring of the completeness of source documentation in support of actual achievements and the lack of frequent review of the validity and accuracy of reported achievements against source documentation.

## **Integrated development plan priority 3: Roads and storm water**

### **Reliability of reported performance information**

32. The FMPPi requires municipalities to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not valid, accurate and complete when compared to the source information or evidence provided. This was due to a lack of monitoring of the completeness of source documentation in support of actual achievements and the lack of frequent review of the validity and accuracy of reported achievements against source documentation.

## **Integrated development plan priority 4: Electricity and energy**

### **Usefulness of reported performance information**

33. The FMPPi requires the following:

- Performance targets must be measurable. I could not measure the required performance for 29% of the targets.



- The period or deadline for delivery of targets must be specified. A total of 29% of the targets were not time bound.
- Performance indicators must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 29% of the indicators were not verifiable.

This was because management did not adhere to the requirements of the FMPPI and due to a lack of proper systems and processes used to produce and measure the required performance.

#### **Reliability of reported performance information**

34. The FMPPI requires municipality's to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information. This was due to limitations placed on the scope of my work due to the fact that the municipality could not provide sufficient appropriate evidence in support of the reported performance information.

#### **Integrated development plan priority 5: Housing**

#### **Usefulness of reported performance information**

35. Section 41(c) of the MSA requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 33% of the reported objectives and 25% of the reported indicators and targets were not consistent with those in the approved service delivery and budget implementation plan. This was due to a lack of monitoring and review of the reporting documents by management.
36. Section 41(c) of the MSA requires actual achievements against all planned indicators and targets to be reported annually. The annual performance report submitted for audit purposes did not include the actual performance of 67% of all planned objectives and 50% of all planned indicators and targets specified in the approved service delivery and budget implementation plan for the year under review. This was due to a lack of monitoring and review of the reporting documents by management.

37. The FMPPI requires the following:

- The period or deadline for delivery of targets must be specified. A total of 25% of the targets were not time bound.

This was because management did not adhere to the requirements of the FMPPI.

#### **Reliability of reported performance information**

38. The FMPPI requires municipality's to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not valid, accurate and complete when compared to the source information or evidence provided. This was due to a lack of monitoring of the completeness of source documentation in support of actual achievements and the lack of frequent review of the validity of reported achievements against source

documentation.

## **Integrated development plan priority 6: Solid waste**

### **Usefulness of reported performance information**

39. Section 41(c) of the MSA requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. 100% of the planned objectives in the approved service delivery and budget implementation plan were not consistent with those in the annual performance report, while a total of 67% of the reported indicators and targets were not consistent with those in the approved service delivery and budget implementation plan. This was due to a lack of monitoring and review of the reporting documents by management.

40. The FMPPI requires the following:

- The period or deadline for delivery of targets must be specified. A total of 25% of the targets were not time bound.

This was because management did not adhere to the requirements of the FMPPI.

### **Reliability of reported performance information**

41. The FMPPI requires municipalities to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information. This was due to limitations placed on the scope of my work due to the fact that the municipality could not provide sufficient appropriate evidence in support of the reported performance information.

### **Additional matter**

42. I draw attention to the following matter:

### **Achievement of planned targets**

43. Refer to the annual performance report on pages 47 to 83 for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected development priorities reported in paragraphs xx to xx of this report.

### **Compliance with legislation**

44. 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 compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

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

45. The municipality did not establish mechanisms to monitor and review its performance management system, as required by section 40 of the MSA.



46. 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.
47. The performance management system and related controls relating to the planning, monitoring, measurement, review and reporting and how it is conducted, organised and managed, were not maintained as required by sections 38 of the MSA and regulation 7 of the *Municipal planning and performance management regulations*.

#### **Budget**

48. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

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

49. The 2012-13 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.
50. A written explanation was not submitted to the council setting out the reasons for the delay in the tabling of the 2012-13 annual report in council, as required by section 127(3) and 133(1)(a) of the MFMA.
51. Oversight report containing comments on the annual report was not adopted by the council within two months from the date on which the 2012-13 annual report was tabled, as required by section 129(1) of the MFMA.
52. 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 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.

#### **Audit committee**

53. The audit committee did not advise the council on matters relating to internal financial control and internal audits, risk management, accounting policies, effective governance, performance management and performance evaluation, as required by section 166(2)(a) of the MFMA.
54. The audit committee did not advise the council on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.
55. The audit committee did not advise the council on matters relating to compliance with legislation, as required by section 166(2)(a)(vii) of the MFMA.
56. 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.

## **Internal audit**

57. The internal audit unit did not function as required by section 165(2) of the MFMA, in that:

- it did not prepare a risk-based audit plan and an internal audit programme for the financial year under review
- it did not report to the audit committee on the implementation of the internal audit plan
- it did not advise the accounting officer and report to the audit committee on matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management and loss control.

58. The internal audit unit did not advise the accounting officer and report to the audit committee on matters relating to compliance with the MFMA, the DoRA and other applicable legislation, as required by section 165(2)(b)(vii) of the MFMA.

## **Procurement and contract management**

59. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive, as the tender documents could not be provided for audit purposes.

60. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, as required by SCM regulation 17(a) and (c).

61. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by means of inviting competitive bids and that the accounting officer approved deviations where if it was impractical to invite competitive bids, as required by SCM regulation 19(a) and 36(1).

62. 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).

63. Invitations for competitive bidding were not always advertised for a required minimum period of days, as required by SCM regulation 22(1) and 22(2).

64. Bid adjudication was not always done by committees which were composed in accordance with SCM regulation 29(2).

65. Contracts were awarded to bidders based on preference points that were not allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No. 5 of 2000) and its regulations.

66. Quotations were awarded to bidders who did not submit a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

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. 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.
69. 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).

#### **Human resource management and compensation**

70. The municipal manager did not sign a performance agreement, as required by MSA section 57(2)(a).
71. Sufficient appropriate audit evidence could not be obtained that newly appointed managers directly accountable to the municipal manager had disclosed their financial interest prior to appointment, as per the requirements of regulation 4 of GNR 805.
72. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury, as required by regulation 14(2)(a) of the *Municipal regulations on minimum competency levels*.
73. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies as required by regulation 14(2)(b) of the *Municipal regulations on minimum competency levels*.

#### **Expenditure management**

74. Money owed by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.
75. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, accounted for creditors and accounted for payments made, as required by section 65(2)(b) of the MFMA.
76. Reasonable steps were not taken to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

#### **Conditional grants received**

77. The municipality did not evaluate its performance in respect of programmes or functions funded by the municipal systems improvement grant and local government financial management grant allocations, as required by section 12(5) of DoRA.
78. Municipal systems improvement grant and local government financial management grant funds were retained or rolled over to the next financial year without seeking the approval of the National Treasury, as required by section 21(1) of DoRA.

#### **Revenue management**

79. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

#### **Asset management**

80. 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.

81. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

#### **Consequences management**

82. Irregular expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

#### **Environmental management**

83. 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).

#### **Internal control**

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

#### **Leadership**

85. Leadership did not adequately respond to the AGSA's message as they did not effectively discharge their oversight responsibilities to ensure an improvement in the key control environment and ultimately the audit outcome. Although an action plan was in place and was monitored, management did not prioritise the addressing of audit report matters which could have ensured a better audit outcome for the municipality.
86. The leadership did not always take timely and adequate action to address weaknesses in the finance and supply chain management directorate due to lack of monitoring and supervision, which resulted in material misstatements in the financial statements, non-compliance with applicable legislation and gave rise to irregular expenditure.
87. The leadership could not effectively monitor internal control activities due to the lack of a system to hold individuals accountable for their internal control responsibilities. Consequently, management did not implement corrective measures in all instances of non-compliance with laws, regulations and departmental policies.
88. Consequences management was not effective as the council did not investigate instances of irregular expenditure to determine whether any person was liable for the expenditure as the council neglected to appoint a committee to investigate the expenditure.

#### **Financial and performance management**

89. The financial statements were not properly reviewed for completeness and accuracy prior to submission for auditing as they did not allow them adequate time to review the financial statements before submission thereof as the internal controls was not operating effectively during the year. This resulted in many findings relating to incorrect disclosure and non-disclosure. In certain instances the municipality did not prioritise the submission of adequate supporting documentation and replies to audit queries during the audit. Certain material audit findings communicated to the municipality during the audit were



also not timely investigated and corrected by management, which resulted in audit report paragraphs that could not be resolved or cleared in time.

90. The municipality did not always comply with applicable laws and regulations. There were no formal processes in place to effectively monitor compliance with legislation, which resulted in a large number of reported non-compliance issues. There was also a lack of consequences where laws and regulations were not complied with.
91. Staff members do not understand performance information reporting requirements and action was not taken during the year to implement requirements due to the integrated development plan manager also fulfilling other responsibilities. This unit was also not adequately staffed.

### **Governance**

92. The internal audit unit was not sufficiently staffed and effective during the year and therefore the internal audit unit did not assist management in evaluating internal controls to determine the effectiveness and efficiency thereof. The chief audit executive position was also vacant during the financial year. As a result the audit committee could not adequately promote accountability and service delivery by evaluating and monitoring responses to risks and providing oversight of the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations. Furthermore management did not provide reliable and credible financial and performance information to the audit committee for them to effectively discharge their oversight responsibilities.

*Auditor-General*

Bloemfontein

30 November 2014



**AUDITOR-GENERAL  
SOUTH AFRICA**

*Auditing to build public confidence*