



# Annual Report

2009/2010  
2009/2010

In presenting this report we acknowledge progress made during the 2009/2010 financial year as well as the challenges and opportunities that lie ahead.

Setsoto Local Municipality

IDP



Link need and capacity

Multi Year Tactical Plans



Link IDP to Senior Managers- Allocation of Responsibilities

Operational Plans



Guide Implementation;  
Enable Performance Evaluation

# HAND-OVER

**Cllr Maduna M S**  
**Mayor**

It is my pleasure to submit the Annual Report of Setsoto Local Municipality for the financial year 01 July 2009 to 30 June 2010.

To the best of my knowledge, contents of the report are consistent with the disclosure principles contained in the Guide for the preparation of Annual Reports issued by National Treasury. This report seeks to portray Setsoto Local municipality's activities during the financial year under review and is based on sound underlying departmental information and management systems.

In presenting this report we acknowledge progress made during the 2009/2010 financial year as well as the challenges and opportunities that lie ahead.

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**Mthembu B J**  
**Municipal Manager**

# Foreword by the Mayor

## ACRONYMS AND ABBREVIATIONS

<b>AG</b>	<b>AUDITOR-GENERAL</b>
<b>APR</b>	<b>ANNUAL PERFORMANCE REPORT</b>
<b>AR</b>	<b>ANNUAL REPORT</b>
<b>BEP</b>	<b>BUCKET ERADICATION PROGRAMME</b>
<b>BI</b>	<b>BASELINE INDICATOR</b>
<b>CSS</b>	<b>CUSTOMER SATISFACTORY SURVEY</b>
<b>DCS</b>	<b>DIRECTORATE OF CORPORATE SERVICES</b>
<b>DECS</b>	<b>DIRECTORATE OF ECONOMIC AND COMMUNITY SERVICES</b>
<b>DFS</b>	<b>DIRECTORATE OF FINANCIAL SERVICES</b>
<b>DMMO</b>	<b>DEPARTMENT OF THE OFFIC OF THE MUNICIPAL MANAGER</b>
<b>DTS</b>	<b>DIRECTORATE OF TECHNICAL SERVICES</b>
<b>EPAS</b>	<b>EMPLOYEE PERFORMANCE APPRAISAL SYSTEM</b>
<b>ES</b>	<b>EQUITABLE SHARE</b>
<b>EXCO</b>	<b>EXECUTIVE COMMITTEE</b>
<b>IA</b>	<b>INTERNAL AUDIT</b>
<b>IDP</b>	<b>INTEGRATED DEVELOPMENT PLAN</b>
<b>IWMP</b>	<b>INTEGRATED WASTE MANAGEMENT PLAN</b>
<b>KPA</b>	<b>KEY PERFORMANCE AREA</b>
<b>KPI</b>	<b>KEY PERFORMANCE INDICATOR</b>
<b>LGSETA</b>	<b>LOCAL GOVERNEMENT SECTOR EDUCATION AND TRAINING ASSOCIATION</b>
<b>MFG</b>	<b>MUNICIPAL FINANCE GRANT</b>
<b>MFMA</b>	<b>MUNICIPAL FINANCE MANAGEMENT ACT</b>
<b>MIG</b>	<b>MUNICIPAL INFRASTRUCTURE GRANT</b>
<b>MSIG</b>	<b>MUNICIPAL SYSTEMS IMPROVEMENT GRANT</b>
<b>MTAS</b>	<b>MUNICIPAL TURNAROUND STRATEGY</b>
<b>PA</b>	<b>PERSONAL ASSISTANT</b>
<b>PMS</b>	<b>PERFORMANCE MANAGEMENT SYSTEMS</b>
<b>SDBIP</b>	<b>SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN</b>
<b>SMME</b>	<b>SMALL, MEDIUM, MICRO ENTERPRISE</b>

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## Foreword by the Mayor

The Annual report for 2009/2010 account on the performance of the municipality for the period 01 July 2009 to 30 June 2010.

The milestone achieved transpired during a very difficult time in our municipality regarding the provision of sustainable services to our communities, what makes matters even more difficult is that we will be having the next local government within few months.

The report will highlight the performance regarding the following priority areas:

- Basic services and infrastructure
- Local Economic Development
- Good Governance and Public Participation
- Financial Viability and Management
- Organisational Development and Transformation

For the municipality to be able to measure its performance for the year under review, the municipality adopted the IDP which was aligned to the Budget, deriving from the budget an SDBIP was then developed with clear KPA, Objectives, KPI and Targets. To speed up provision of services to communities a MTAS was developed towards the end of the financial year so as to address those issues raised by communities in the new financial year.

As highlighted in Chapter 2 of the report, each departmental achievement have been explained in detailed and where there are challenges, measured have been put in place to be addressed in the new financial year.

In tabling this Annual report I would like to thank the Speaker for his leadership, members of the Executive Committee, all council members for their inputs in the development of the IDP, SDBIP and MTAS, the Municipal Manager, his entire Management Team and staff for the sterling work they have done in providing services to our communities.

CLLR MADUNA M S  
Mayor

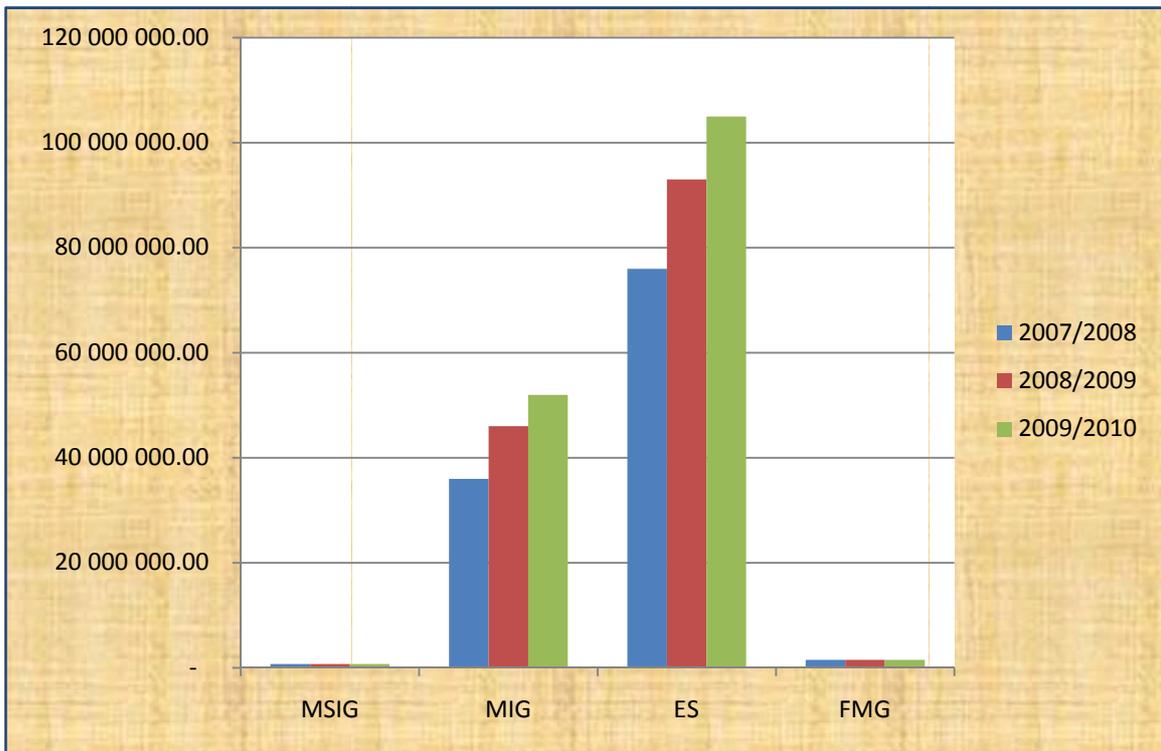
# MUNICIPALITY AT A GLANCE

## Orientation

THINGS TO KNOW	
1	Before 1994, there were 8 racially segregated local authorities, (4 Black Local Authorities, 4 White Authorities) within the municipal area.
2	The Local Government System was inaugurated in 2000 after the promulgation of the Municipal Structure Act and the Municipal Systems Act, and the council now consist of a single municipality comprising of the following towns: Senekal/Matwabeng, Ficksburg/Meqheleng, Clocolan/Hlohlolwane and Marquard/Moemaneng
3.	Setsoto Local Municipality was established in terms of Section 14 of the Local Government: Municipal Structures Act, Act No 117 of 1998) and was published in Provincial Gazette No 184 dated 28 September 2000. The Local Municipality is a category B Municipality with a collective executive system combined with a ward participatory system as contemplated in Section 3(b) of the Determination of Types of Municipality Act, 2000 (Act No 1 of 2000)
4.	Setsoto is a local municipality providing sustainable services to the approximately 103 000.00 population with a household number of 29 832.

# ALLOCATION TRENDS-GRANTS

For the year ended 30 June 2010



# CHAPTER 1: INTRODUCTION AND GENERAL INFORMATION

## **1 Introduction by the head of the institution**

### **1.1 Information on the Department of the Office of the Municipal Manager's Office**

The Department of the Office of the Municipal Manager comprises of the following divisions:

- ✓ Office of the Municipal Manager
- ✓ Internal Audit Division
- ✓ Integrated Development Planning and Performance Management Systems Division
- ✓ Information and Technology Division

### **1.2 Objectives of the Department of the Municipal Manager's Office**

The Department of the Office of the Municipal Manager's Office has developed the following objectives:

#### **1.2.1 Organisational Excellence in Operations**

- Operational performance targets for Institutional Development
- Operational performance targets for Infrastructure and Service Delivery
- Operational performance for Local Economic Development
- Operational performance for Social Development
- Procedure for dealing with potential business failure of key operational departments
- Develop and implement an Emergency Response Plan
- Improve accountability of the budget process and ensure regularity of revenue flows consistent with the municipality's mission and objectives
- Improve response to request for technical expertise
- Develop and implement a workforce planning methodology for municipality staff to attract and retain high quality staff
- Analyse implications of increased demand on municipality's operations and policy processes and develop ways to improve scalability

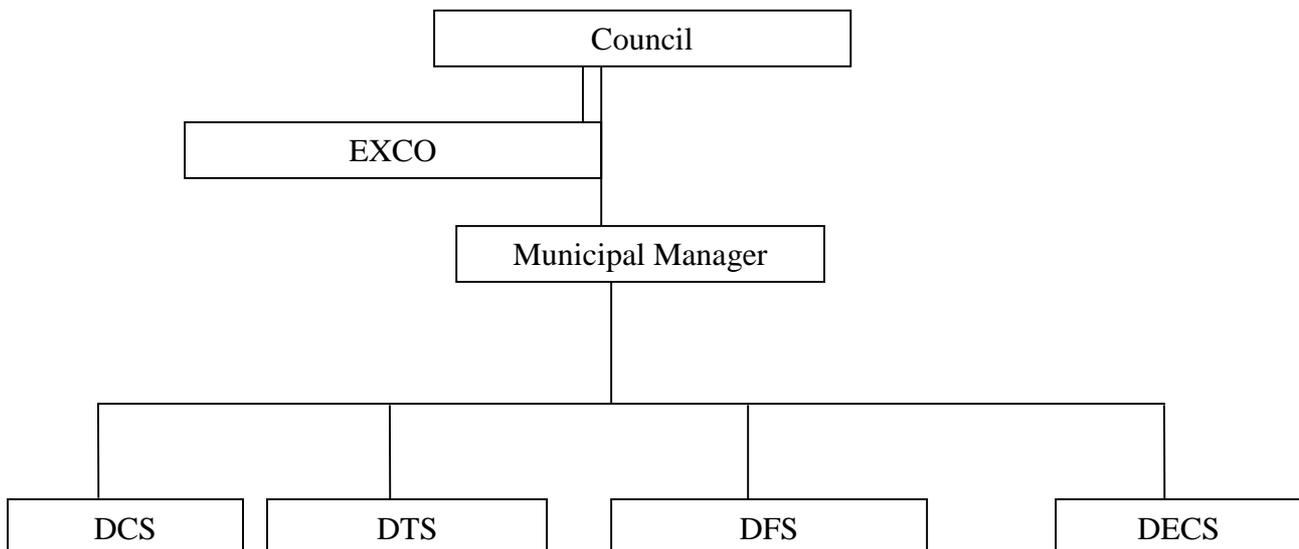
#### **1.2.2 Organisational Excellence in Policy Development**

- Develop capacity to better understand economic issues, user needs, market expectations and business models and the implications of these factors on the municipal policy development, and also the implications of the municipal policies on the communities.
- Improving the efficiency and effectiveness of the Council, EXCO, Portfolio Committees, Audit Committee and the Performance Management Audit Committee
- Identifying the policy work that needs to be done
- Identifying which groups need to be working on which policy task
- Developing core policies as reference points
- Improving policy development process
- Developing process for policy development where all relevant stakeholders need to be involved
- Enhancing interaction between all the departments within the municipality

### 1.2.3 Increase community participation, intergovernmental relations and efficiency of the Department of then Office of the Municipal Manager multi-stakeholder environment

- Improve the ability of the stakeholders to participate in municipal planning and policy development processes
- Redesign municipal planning and policy development support practices and processes to meet the needs of the entire communities
- In each sphere, work with designated official and organisations to develop and monitor the programs in implementation
- Improve and deepen participation in the municipal process by stakeholders, including communities
- Develop and implement a communications plan that clearly explains municipality's mission and communicates municipality's activities and achievements
- Implement a programme to enhance and develop relevant skills and knowledge in existing participants and the next generation of municipal leadership
- Develop knowledge management program to institutionalize government memory and communicate core municipal values
- Strengthen relationships with key partners as needed to assist municipality in carrying out its mandate
- Identify key forums with which municipality should interact to assist in dealing with issues that are related to but not municipality's ambit
- Develop mechanisms to report on municipality's openness, transparency, inclusiveness and its multilateral and multi-stakeholder environment

### 1.3 Organisational Structure- Management Level



# CHAPTER 2: DEPARTMENTAL PERFORMANCE

## 2.1 Voted Funds

The following funds were appropriated for in the financial year under review:

1. Operational
2. Income
3. Capital
4. Grants
- 5.

## 2.2 Aim of the Vote

To endeavor at all times that the municipality spent on those items budgeted for.

## 2.3 Key priority developmental areas

In terms of the budget of the IDP, the municipality is having the following key priority developmental areas:

- Infrastructure and Services
- Local Economic Development
- Institutional Development
- Social Development

### 2.3.1 Introduction to departmental programmes

Department	Programmes
Mayor's Office	<ul style="list-style-type: none"><li>• Social Development</li><li>• Institutional Development</li></ul>
Speaker's Office	<ul style="list-style-type: none"><li>• Institutional</li></ul>
Department of the Office of the Municipal Manager	<ul style="list-style-type: none"><li>• Infrastructure and Services</li><li>• Institutional Development</li><li>• Local Economic Development</li><li>• Social Development</li></ul>
Department of Corporate Services	<ul style="list-style-type: none"><li>• Institutional Development</li></ul>
Department of Economic and Community Services	<ul style="list-style-type: none"><li>• Infrastructure and Services</li><li>• Social Development</li></ul>
Department of Financial Services	<ul style="list-style-type: none"><li>• Institutional Development</li></ul>
Department of Technical Services	<ul style="list-style-type: none"><li>• Infrastructure and Services</li><li>• Local Economic Development</li></ul>

# CHAPTER 2: DEPARTMENTAL PERFORMANCE

## 2.3.3 Overview of the Basic Services and Infrastructure environment for 2009/2010

KPA	Objective	KPI	BI	Target	Actual	Variance/Comment
Basic Services and Infrastructure	To maintain three municipal properties:	4 Properties	1	4		Contractor did not perform
	Toilet facilities at Caravan park					Financial constraints
	Fxb. Municipal offices/ Senekal. municipal offices					
	Interior offices/ Halls					
	Mapenyadira Hall					
	Development of parks in the townships	2 Parks	0	2	0	Financial constraints
	Provide toilets and water	2 Cemeteries	0	2	0	
	Develop tennis/ netball courts	2 tennis/ netball courts	0	2	0	
Maintenance	11	11	11	11		
Maintenance	Ficksburg	1	1	1		
Maintenance	1	1	1	1		

# CHAPTER 2: DEPARTMENTAL PERFORMANCE

KPA	Objective	KPI	BI	Target	Actual	Variance/Comment	
Basic Services and Infrastructure	Implementation of approved IWMP	Provincial approved IWMP and application for funding to develop licensed landfill sites in Senekal and Ficksburg, and transfer stations in Clocolan and Marquard	0	Submitted to MEC	0	Await response from MEC	
			1	4	1		
	Implementation of Fleet Management Policy	3 x mobile compactors 40 x Mass containers 1 x Tipper truck 6 x Kudu lawn mowers 6 x weed eaters 1 x Chain saw 1 x Tractor		5	3	0	Financial constraints
				20	40	0	
				1	1	0	
				10	6	0	
				10	6	0	
				2	1	0	
				16	1	0	
	To reduce housing backlog	Applications (forms) of RDP houses to reduce housing backlog. Approvals of RDP houses Number of erven available for building of houses (including RDP)		628	4000	999	The total allocation is 874 (600 for PLS and 274 for Operation Hlasela), however more forms were completed to accommodate the ones which will fail.
				757	4000	2328	
				367	3588	3445	The 3445 sites are approved and the servitudes did reduce the target. There are still no services and the sites are mostly not occupied.
	Fires and emergencies attended ( e.g. MVA, rescues)	JOC Caravan Ultra High Pump Fire Arms No of fires attended to No of other emergencies No of hours training			1	0	Financial Constraints
					1	0	
					9	10	
				350	230		
				800	435		
				560	86		

KPA	Objective	KPI	BI	Target	Actual	Variance/Comment
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# CHAPTER 2: DEPARTMENTAL PERFORMANCE

Basic Services and Infrastructure		Completion of RDP houses of the current projects.	584	1400	1500	One project overlapped to the following year	
	To plan cemetery in Meqheleng	Identification of suitable area in Meqheleng	30 ha	20 ha	16.2ha	The identified /suitable area is 16.2 ha and the remaining portion is at the flood line	
	To plan the new township establishment for middle and high income groups	Formal land development for middle and high cost housing development.	0	200	60	Application was submitted to COGTAH for approval. The servitudes affected number of other 140 sites. Re-planning of Ext. 21 in Ficksburg yielded 60 sites only.	
	To ensure formal land development for low cost housing development	Planning for 1000 sites	367	1000	792	The number of erven was reduced by the construction of sewer outfall line which crossed the identified area. (Meqheleng)	
	To identify suitable commonage land	Acquire 4000 ha of land	0	4000ha	0	No funding was allocated by the Department of Rural Development and Land Reform.	
	Tables and chairs	1200 15	900	1200 15	0 0	Order has been issued but stock not delivered	
	Fencing of cemeteries	1	11	1	0	Financial constraints	
	Traffic and Law enforcement	Road blocks			10	28	
		Escort duty ( hours)			800	1290	Normal Maintenance
		Awareness programs			10	33	
		Maintenance (Road Traffic signs& markings(km)			300 24	357 124	
		Parking meters			200	0	Financial constraints
		TCS			0	0	
4x4 Fire Engine				1	0		
Winch system			1	0			

# CHAPTER 2: DEPARTMENTAL PERFORMANCE

KPA	Objective	KPI	BI	Planned		Explanation of Variance
				Target	Actual	
<b>Basic Service Delivery and Infrastructure</b>	To ensure that electricity is made available to all Setsoto Residents where Setsoto is the licensing authority	Electricity Network	317km	1,4km LV cable	.332km	Outstanding order
			317km	Replace 70m LV cable Marquard	0	
			50	50x 10,5m Tar Poles	0	
			50	50 11kv Insulators	0	
			64	Replace Lt Panels	0	
		40	1 Install Mini sub	0	Outstanding order	
	To ensure that sufficient illumination is supplied by street lights to all the Setsoto Communities to acceptable standards. Thus safeguarding the communities.	Number of Street Lights moved in township	1234	Move 80 street lights in township	16	Lack of resource (cherry picker) and manpower
		Number of Street Lights moved in town	1968	Replace 80 fittings in town	9	

# CHAPTER 2: DEPARTMENTAL PERFORMANCE

KPA	Objective	KPI	BI	Target	Actual	Explanation of Variance
Basic Service Delivery and Infrastructure			123	60	2	Financial constraints
	Ensure that street lights repaired and material on hand Maintenance	Number of Street Lights maintained	3202	600 lights	819	
	Maintenance of Gravel Roads	To ensure proper road network throughout entire municipal area. Import gravel & grade roads.	290km	150km	334km	
	Build & Construct New Roads	To provide proper roads- Build & Construct	413km	14km	11km	
	Maintenance of Tar Roads	To ensure potholes are treated timeously and maintenance done according to quarterly plans Re-sealing of streets Rebuild Street	123km	155km	215.3km	
			738000m <sup>2</sup> .64km	60 000m <sup>2</sup> .64km	36051m <sup>2</sup> 0	
	Storm water Network	Maintenance of storm water canals & conduits network to ensure that roads remain accessible	252km	g-145km	287km	
			200km	p-20km	154km	
Effective fleet	Purchase New Vehicles	60	19	0		
Protect vehicles	Vehicle shed in Ficksburg		1	0		

# CHAPTER 2: DEPARTMENTAL PERFORMANCE

KPA	KPI	Performance Target							Risks/Limitations/ Conditions
		BI	Current Financial Year				CY +1	CY + 2	
			Quarter 1	Quarter 2	Quarter 3	Quarter 4			
<b>Basic Service Delivery and Infrastructure</b>	48 Hour supply as per DWEA requirement	Ficksburg 12hrs Cocolan 48hrs Senekal 48hrs Marquard 48hrs	48 Hour supply as per DWEA requirement.	Upgrading of WTW will start in Sep 2010					
	DWA Blue Drop Requirements. 192 Tests	152 Tests	38 Tests	38 Tests	38 Tests	38 Tests	304	456	Routine
	To install 500 water standpipes and 600 water meters.	84 standpipes, 54 water meters	125 standpipes 150 water meters	125 standpipes 150 water meters	125 standpipes 150 water meters	125 standpipes 150 water meters	1000	1500	MIG funding will only be available for 2010/2011 financial year
	To ensure that all 15395 households are provided with full water borne toilets using MIG funding.	11471	0	0	1100	1100	1724		Project is included in the MTAS. Business plans submitted to MIG for possible funding
	To ensure that effluent discharged comply with DWA Green Drop Requirements	48 Tests	12 Tests	12 Tests	12 Tests	12 Tests	96	144	

# CHAPTER 2: DEPARTMENTAL PERFORMANCE

Project No	Project Deliverable	Planned/Actual start date	Planned/Actual finished date	Project Cost	Ward
MIG/FS/0350/W/06/08	Raising of Meulspruit dam wall	Unknown	Unknown	R17,256,739.00	Ficksburg, Clocolan and Marquard
MIG/FS/0448/W/06/08	Augmentation of Raw Water Supply	1 Sep 2009	Unknown	R13,202,739.00	Ficksburg, Clocolan and Marquard
MIG/FS/0448/W/06/08	Upgrading of Oxidation Ponds	1 Aug 2009	30 Sep 2010	R15,000,000.00	Marquard
MIG/FS/0352/W/06/08	Upgrading of Water Treatment Plant	1 Aug 2009	30 Apr 2011	R5,209,800.00	Ficksburg and Marquard
MIG/FS/0447/W/06/08	Upgrading Waste Water Treatment Plant	1 Aug 2009	30 Sep 2010	R9,120,000.00	Senekal

# CHAPTER 2: DEPARTMENTAL PERFORMANCE

## 2.3.4 Overview of the Local Economic Development environment for 2009/2010

KPA	Objective	KPI	Baseline Indicator	Performance		Explanation of Variance
				Target	Actual	
Local Economic Development	To enable the environment for LED Tourism Sector Plan	Approved Tourism Sector Plan	0	1	0	No Funding
	To develop the LED Strategy	Approved LED Strategy	0	1	0	
	Development of Emerging businesses	Training of 60 SMMEs	60	60	60	
	To enable Business Environment	Permits for Street Traders	0	200	463	
		Letters of support for street traders enabling them to trade outside the boundaries of Setsoto Local Municipality	0	6	18	
	Business Entity Registration	To register 3 co-operatives	10	3	3	
	1 X 4 X 4 LDV		0	1	0	
	Waste Recycling	Revitalization of project	1	1	1	
	Textile Project	Revitalization of project	1	1	1	
Sandstone mining	Provision of land and training of 20 beneficiaries	0	1	0	Council has already took a resolution on provision of land for this project administration still has to finalize the whole process	

# CHAPTER 2: DEPARTMENTAL PERFORMANCE

<b>Local Economic Development</b>	Nursery Project	Revitalization of project	1	1	0	Funding and disputes on the issue of land occupation
	Tourism Signage	Erection of 12 tourism signage's	20	12	0	Project dependent on DEAT
	Cherry Festival		1	1	1	Funded out of own coffers
	Cherry Jazz Festival		1	1	1	Funded out of own coffers
	Asparagus		0	1	0	Provision of land for the project to kick-start
	Training of Women in Waste Management		0	2	2	DEAT
	Training by Productivity SA		0	35	20	The intention was to train 35 beneficiaries, 15 beneficiaries dropped out along the process

# CHAPTER 2: DEPARTMENTAL PERFORMANCE

## 2.3.5 Overview of the Good Governance and Public Participation environment for 2009/2010

KPA	Objective	KPI	BI	Target	Actual	Variance/Comment
Good Governance	To ensure that all software used in the Municipality has the relevant licensing.	Antivirus Updates	150	150	150	
		Office 2007	15	135	135	
		Remote Administration software	0	150	150	
	To report in line with the IIA standard and 3 ad hoc audit assignment.	Producing 24 reports that are in line with the IIA standard.	24	24	28	
		3 ad hoc audit assignment	4	3	9	
	To sign declaration of independency and secrecy.	Preparing 22 system descriptions	22	22	24	Separation of auditable entities
	Compile operational coverage plan that will determine the focus and priority of auditable areas.	35 Audit programs	35	35	58	Follow ups on audit programmes
	To compile 10 quarterly reports for implementation of Annual plan	Quarterly plans	4	10	20	Separation of auditable entities
	To renew the membership of IIA	Renewed membership	5	5	5	Compliance
	To revise Audit policy	Revised and approved audit policy	1	1	1	
	To have set of progress reports – performance against the operational plan	2 set of progress report – half yearly.	2	2	2	Implementation SDBIP
	To hold Audit Committee meetings	4 Audit Committee meetings	3	4	1	New committee established on 31 March 2010
	To assess the risk management strategy	Assessment report.				
To have awareness campaigns on fraud prevention strategies	Awareness campaign on fraud prevention strategies					

# CHAPTER 2: DEPARTMENTAL PERFORMANCE

KPA	Objective	KPI	BI	Target	Actual	Variance/Comment
Good Governance	To hold departmental meeting to improve client/customer relationship	Departmental meetings held to improve client/customer relationship				Internal Communication
	Compiling of procedural manual.	Revising 1 procedural manual	0	1	1	Compliance
		Adopt the standards of professional practice of internal audit by signing 20 declaration of independency and 20 secrecy	20	20	19	Internal Auditor was on maternity leave
			20	20	19	
		Compile 1 operational coverage plan that will determine the focus and priority of auditable areas.	1	1	1	
		Internal and external assessment on the quality of work done by IA	0	1	1	
Good Governance	<b>To provide effective administration &amp; committee services</b>	Delegation of powers and functions. Submission of reports to Council and Exco	4	4	7	Target was achieved
		Implementation of Resolutions – send out progress reports & meetings	12 EXCO 4 Council	12 4	12 8	Even though target was achieved postponements can result in targets not being achieved and should be kept to a minimum.
	<b>To develop by- laws and adhere to community participation processes</b>	Rationalization of By- Laws Development & Rationalization	9	4	5	Drafts of 5 by-laws were adopted on the 31 <sup>st</sup> March 2009. Meeting was scheduled with Councilors on the 06 June 2010. Public participation will take place in the first quarter of the new financial year.
Public Participation	<b>To ensure ward meetings are held</b>	One (1) Community/Constituency Meeting per month	204	204	106	It could not be proved that Councillors held Constituency/Community meeting due to non submission of the reports
	<b>To ensure ward committee meetings are held</b>	One (1) Ward Committee Meeting per month	204	204	104	It could not be proved that Ward Committees held meeting due to non submission of the reports

# CHAPTER 2: DEPARTMENTAL PERFORMANCE

KPA	Objective	KPI	BI	Target	Actual	Variance/Comment
Good Governance	To provide training for ward committee members	Ward Committee Trainings or Workshops	4	4	1	Trainings/Workshops could not materials due to financial constrains
	To formulate policies	Implementation and Monitoring of Protocols (international) and Conventions	1	19	0	Nothing has been done thus far because there had never been any proper arrangements.
		Assess public liability claims	0	19	2	No many claims were brought to the attention of the office.
		Research and analyze information for the development of Council Policies and by-laws	0	28	11	Research is at an advanced stage. Information is being consolidated.
	To ensure sound communication strategy	Develop communication strategy and policy	0	02	0	Still in the processes of finalizing research in this regard.
		Advise Management on media aspects	15	80	57	We were able to manage our public image appropriately through media and we have also developed good working relations with media. The Management and Mayor continuously received an advice on media related aspects.
		Conduct press conference(s) quarterly with both print and electronic media	7	53	1	We only managed to conduct one press conference. We have managed to have many interviews with both print and electronic media both locally and nationally.
		Organize strategic activities and programs	0	14	7	The total number set was too high and we have managed to have only seven (7) strategic programs/activities.
		Writing of Speeches for the Council (Mayor)	04	53	1	Only advised the Mayor on countless occasions on ad hoc basis on how should he engage on issues during his public meetings. Only the Mayoral Budget speech was written.
		Numbers of meetings - Thusong Service Center	1	04	0	No meetings were convened.
		Establishment of Setsoto Communicators' Forum	0	1	1	The Forum has been established and it operating.

# CHAPTER 2: DEPARTMENTAL PERFORMANCE

## 2.3.6 Overview of the Financial Viability and Management environment for 2009/2010

KPA	Objective	KPI	BI	Performance		Explanation of Variance
				Target	Actual	
Financial Viability and Management	To ensure that every customer receives an account on a monthly basis	Number of accounts sent out, delivered and returned	399172	346930	386930	There are still a high number of duplicate accounts which still have to be cleared.
	Ensure that every customer pays within the stipulated period	Percentage of revenue collected every month	80%	70%	69.60%	There appears to be a number of indigent households still being levied as normal. Lack of service delivery in other areas of the municipality.
	To ensure that accounting and safekeeping of cash is in line with the policy and any prescribed framework and is banked daily	Cash is fully banked on a daily basis	250	250	247	Lack of transport in Clocolan
	To ensure that accounts that sent out are free from errors and that customer queries are resolved amicably	To resolve a customer query within 14 days	14	14	14	Achieved
	Compile the budget 90 days prior to the start of the financial year	To start the budget process by 31 August 2009	31/08/2008	31/08/2009	31/08/2009	Compliance
	To ensure that the budget is approved at least 30 days before the start of the budget year	Ensure that the budget is approved by the 31/05/2010	04/06/2009	31/05/2010	27/05/2010	Determined by the year plan of Council
	To compile financial statements within two months after year end in line with the prescribed framework (e.g. GRAP/GAMAP)	To compile the financial statements by 31 August 2009	31/08/2008	31/08/2009	31/08/2009	
	To report monthly on the performance of the budget in terms of section 71 of the MFMA	To report within 10 days after the end of each month	12	12	12	
	To report on midyear in terms of the MFMA	To compile midyear report				
	To ensure that reports are sent to relevant departments within 10 days after end of each month and quarter	To report to National and Provincial Treasury and Department of local government and housing	12	12	12	
	To ensure that the municipality complies with GRAP/GAMAP standards for the financial year 2007/08 in terms of regulations	To ensure that the municipality complies with GRAP /GAMAP standards reporting requirements for the financial year 2008/09	90%	90%	90%	

# CHAPTER 2: DEPARTMENTAL PERFORMANCE

KPA	Objective	KPI	BI	Target	Actual	Explanation of Variance
Financial Viability and Management	Analysis and identification of municipal needs in terms of goods & services to be procured (Demand management)	To ensure that requested goods/services are procured within 21 days of on receipt of approved documents	21	21	21	
	Procuring goods/services in manner prescribed by the SCM Policy & MFMA (Acquisition Management)	To ensure that procurement of goods/ services is in accordance with thresholds stipulated in the SCM Policy and SCM regulations. i.e. R1 – R5000; R5001 – R20000; etc.	100%	100%	100%	
	Disposal of goods is in line with SCM Policy and MFMA (Logistics/Disposal)	To ensure that disposal of goods/assets is in accordance with the SCM Policy and MFMA	0	1	0	Disposal of our obsolete items will be done as soon as the new items are acquired. This has taken longer than anticipated
	To ensure that every creditor is paid within 30 days of receipt of an invoice in terms of the MFMA	To ensure that every creditor receives a payment within 30 days of receipt of an invoice	34	30	31	Cash flow problem as a consequence of poor planning.
	Monthly monitoring of the capital and operational expenses	To ensure that other departments are fully advised on the performance of their budgets on a monthly basis	12	12	12	
	Process insurance claims within 30 days on occurrence of event and on receipt of all relevant documentation	To ensure that all insurance claims are processed within 30 days on all receipt of all relevant documentation	30	30	30	
	Recording and monitor the movement of inventory items	To ensure that all inventory/stores items are recorded in the financial system within 14 days	14	14	14	
	To ensure that all assets of the municipality are fully maintained with any relevant policy or prescribed framework	Implement asset and liabilities policies and any relevant related policy	100%	100%	100%	
	Payments of salaries and allowances for personnel & councillors	To ensure that all salary payments are made before the 25 <sup>th</sup> of every month	12	12	11	Cash flow problem as a consequence of poor planning.
	Payments to third parties for all salary related deductions	To ensure that all salary related payments are made before or on the 7 <sup>th</sup> of every month	12	12	10	Cash flow problem as a consequence of poor planning.
	To ensure that other departments are fully informed on their budget performance	Sending management reports on a monthly basis	12	12	12	

# CHAPTER 2: DEPARTMENTAL PERFORMANCE

## 2.3.7 Overview of the Organisational Development and Transformation environment for 2009/2010

KPA	Objective	KPI	BI	Performance		Explanation of Variance
				Target	Actual	
Organisational Development and Transformation	To develop and approve IDP Review Process Plan	Reviewed IDP Process Plan	1	1	1	<b>Lack of commitment by Councillors and Officials</b>
	To develop a credible IDP	Reviewed IDP	1	1	1	
	To have five PA for section 57 Managers	Signing of section 57 Manager's performance agreements	5	5	4	Director Technical Services post is vacant
	To develop a institutional SDBIP	SDBIP	1	1	1	Section 57 Managers not signing the Performance Agreements
	To consolidate an Annual Performance Report	Approved APR 2008/09	1	1	1	Officials not submitting sufficient, reliable and accurate information
	To review and implement EPAS	667	0	667	0	The EPAS is still not yet implemented, to be effected from July 2010.
	To consolidate an Annual Report	Approved AR 2008/09	1	1	0	Delay on submitting revised information by Departments to the IDP and PMS Division for submission to AG.
	To conduct Customer Satisfactory Survey	Adopted CSS	1	1	0	The report was not submitted from the service provider to our office
	To conduct Data Purification Survey	Adopted DPS	1	1	0	Lack of commitment from management and coordinator was dismissed from employment
	To ensure effective Communications within the institution and the various units.	Intranet Development	0	1	0	Financial constraints
	To ensure that the I.T. network has minimal downtime and data traffic speed is to the maximum	Customer Care Software	0	1	1	Only acquired a soft ware for Technical complains, still to finalise the establishment of a call center.
		Upgrading of Cabling to Cat 6e in FXB	1	1	1	
		Upgrading of Cabling to Cat 6e in CLO	1	1	1	
Upgrading of Cabling to Cat 6e in MRQ		1	1	1		
	Upgrading of Cabling to Cat 6e in SEK	1	1	1		

# CHAPTER 2: DEPARTMENTAL PERFORMANCE

KPA	Objective	KPI	BI	Target	Actual	Explanation of Variance
Organisational Development and Transformation	To ensure that the I.T. network has minimal downtime and data traffic speed is to the maximum	Software, Hardware & User Problems attended to	319	ongoing	296	Lack of sufficient software knowledge from certain users. Unauthorized software downloaded on the system via internet or from personal software, Inappropriate use of the system, lack of the equipment.
		Windows update- service pack 3 & antivirus updates	150	150	150	
		Number of new setup PCs	78	ongoing	6	Cashiers in units still have to use terminals for Financial system due to setup. Another 6 can be done when the new system is in place.
	Upgrade of the memory the Councillor's laptops to increase the performance	Number of laptops upgraded	23	10	10	
	To Advertise Documents/ policies / Tenders/ RFP's / Vacancies placed on the website	Documents/policies/ Tenders/ RFP's/ Vacancies placed on the website	81	ongoing	94	

# CHAPTER 2: DEPARTMENTAL PERFORMANCE

KPA	OBJECTIVE	KPI	BI	Performance		Implications / Corrective Steps/Explanation of variation.
				Planned	Actual	
<b>Organisational Development and Transformation</b>	To have effective personnel management	<b>Data Bank</b> Number of Data Bank documents submitted to the SALGBC.	3	3	3	Compliance with Collective Agreements.(Part D, Section 1).
		<b>Pension/Provident Funds (Membership).</b> Number of employees belonging to a Pension Fund.	31	5	7	Non - Compliance to the Section 9, clause 9.3.1 of the Human Resource Policy Manual (HRPM).  Audits will be conducted to ensure that all members belong to a Pension Fund.
		<b>Pension/Provident (Withdrawal Claims)</b> Number of terminations due to Resignation, Retirement, Disability/III-Health, Deceased and Dismissal.	37	19	28	Family of the deceased did not submit complete information.  It is difficult for the institution to locate some family members of the deceased employees.(change of address for those staying outside the jurisdiction of Setsoto Municipality.
		<b>Medical Aid Scheme (Membership).</b> Number of employees belonging to a Medical Aid.	199	156	6	Non - adherence to Section 9.3.2 of the Human Resources Policy Manual (HRPM).  Other employees are registered to other medical aid schemes of their spouses as dependants.  To correct this, the institution should ensure that all employees belong to a Provident/Pension Fund approved SALGBC by the end of the financial year 2009/10.  The process should be managed according to the stipulations of Section 9.3.1 of the HRPM.
		<b>Medical Aid Scheme (Window Period).</b> Number of presentation to be conducted.	1	1	1	Compliance to Section 4, clause 4.1.1 of the Main Collective Agreement.

# CHAPTER 2: DEPARTMENTAL PERFORMANCE

KPA	Objective	KPI	BI	Performance		Implications / Corrective Steps/Explanation of variation
				Target	Actual	
<b>Organisational Development and Transformation</b>	To ensure skills development and training in the municipality	<b>Conduct Workplace Skills Audit.</b> Number of Skills Audit conducted.	1	1	1	Compliance to Skills Development Act 1998 and Skills Development Levies Act of 1999.
		<b>Training Committee</b> No of meetings conducted.	4	12	3	Non availability of delegates. Contravention of the of the Skills Development Act of 1998.  It is imperative that the members of the Training committee collectively draft the schedule of activities for the Forum,
		<b>Number of monthly training reports submitted to LGSETA.</b>	12	12	12	Compliance to Skills Development Act, Skills Development Levies Act and Skills Development Regulations of 2003. .
		<b>No. of training interventions attended by employees.</b>	25	49	27	Insufficient funds from the training vote to implement trainings in the Workplace Skills Plan (WSP).  In future all the training interventions that will be implemented are only those that are captured in the WSP.
		<b>No. Training interventions attended by Councillors.</b>	5	5	4	Acquired external funding to implement more programs.
		<b>Internships.</b> No. of learners enrolled in the graduate internship programme.	100	100	5	Termination of contracts due to permanent employment (in other institutions and deaths).
		<b>Bursaries.</b> No. of LGSETA-funded bursaries allocated to the employees.	0	0	0	External Funding from LG SETA  Dropped-out due to Poor Academic Achievement
		<b>Skills programmes.</b> Number of Skills Programme to be implemented	7	7	5	Insufficient funds from the training vote.  Institution should apply for more discretionary grants from LGSETA in order to implement more skills programmes.

# CHAPTER 2: DEPARTMENTAL PERFORMANCE

KPA	Objective	KPI	BI	Performance		Implications / Corrective Steps/Explanation of variation
				Target	Actual	
<b>Organisational Development and Transformation</b>		<b>Grant recoupment</b> (Mandatory Grants) to be received from LGSETA.	R277 603.00	R285 000.00	R292 687.00	Implementation of accredited and planned training captured in the WSP, the municipality qualifies for mandatory grants.  Submission of monthly reports made the municipality to receive more grants than anticipated.
	To ensure employment equity at the workplace	<b>Employment Equity Forum(EEF)</b>  Number of meetings to discuss employment equity related matters.	1	4	1	Non-availability of delegates. Non adherence of the Employment Equity Act.  It is imperative that the members of the EEF collectively draft the schedule of activities for the Forum,
		<b>Awareness Campaign.</b>  Number of awareness campaign conducted.	4	4	4	Compliance to the Employment Equity Act of 1998.
		<b>EEA1 Forms</b>  Number of EEA1 Forms completed.	1	1	1	Compliance to the Employment Equity Act of 1998.
		<b>EEA 2 &amp; EEA 4 Forms</b>  Number of submission of the EEA 2 & EEA 4 forms to Employment Equity Registry.	1	1	1	Compliance to the Employment Equity Act of 1998.
		% of PDI employees within the municipality	95.48%	2.52%	0.19%	Slow recruitment process of the Previously Disadvantaged Individuals (PDI's).  Non adherence to the Employment Equity Plan of the municipality. In future all the recruitment of the Previously Disadvantaged Individuals will be in line with Employment Equity Plan (EEP).

# CHAPTER 2: DEPARTMENTAL PERFORMANCE

KPA	Objective	KPI	BI	Performance		Implications / Corrective Steps/Explanation of variation
				Target	Actual	
Organisational Development and Transformation		% of females within the municipality	28.67%	16.33%	- 2.41%	High mortality rate. At the end of the Financial Year the total number of females in the Municipality was 26.26% Slow recruitment of females in the institution as aligned to the Employment Equity Plan (EEP).
		% of males within the municipality	71.33%	-16.33%	2.41%	Over representation of males in the institution. At the end of the Financial Year the total number of Males in the Municipality increased to 73.74% Non adherence to the recruitment process as highlighted in the Employment Equity Plan (EEP) of the municipality.
		% of differently disabled employees within the municipality	1.27%	0.73%	-0.01%	Slow recruitment of disabled persons in the institution. 1 employee was sent on Medical Unfit due to the nature of disability.  Non adherence to the Employment Equity Plan of the municipality.
	To ensure occupational health and safety in the workplace	<b>Inspection of Sites</b>  Number of Sites inspections conducted.	1	12	1	Site Inspections cannot be performed because Appointment letters of Safety Reps. Were not signed by Management.  Lack of funding for training of Health and Safety Reps. Lack of resources.  Non compliance of Health and Safety Act.

# CHAPTER 2: DEPARTMENTAL PERFORMANCE

KPA	Objective	KPI	BI	Performance		Implications / Corrective Steps/Explanation of variation
				Target	Actual	
<b>Organisational Development and Transformation</b>		Number of reports submitted to the Management and the LLF	1	12	1	Non-compliance to the Health and Safety Act of 1993.
		<b>Health and Safety Committee.</b>  Number of meetings held to discuss all health and safety matters.	1	4	0	Appointment letters of Safety Reps. not signed by Management.  Lack of funding for training of Health and Safety Reps  It is imperative that the members of the members of the committee draft the schedule of activities for the Forum,
	To ensure labour and discipline	<b>Local Labour Forum</b>  Number of the Local Labour Forum (LLF) meetings held to discuss all labour related matters	4	12	1	Unavailability of delegates.  It is imperative that the members of the LLF collectively draft the schedule of activities for the Forum,
		<b>Collective Agreements</b>  Number of awareness campaigns conducted across all the units.	1	1	1	Compliance to the Collective Agreements and Code of Conduct.
		<b>Discipline</b>  Number of cases concluded.	28	18	24	Due to the revised target there were newly reported cases and concluded cases.  Unavailability of witnesses.
	To ensure effective communication & IT networks	Monthly accounts printouts	12	12	12	A total amount of R 85 014.46 was recovered for the financial year 2009 & 2010 however we are experiencing a problems of managers who does not put measures to ensure that the staff is submitting on monthly.
		Connecting users to system and printing monthly reports	5	50	0	None as the project was subject to obtaining a loan.
		Purchasing of electronic notebooks	2	5	0	None as the project was subject to obtaining a loan.

# CHAPTER 2: DEPARTMENTAL PERFORMANCE

KPA	Objective	KPI	BI	Performance		Implications / Corrective Steps/Explanation of variation
				Target	Actual	
<b>Organisational Development and Transformation</b>	To provide legal advice	Advice on legal matters or to give legal opinion (s).	21	44	23	Not all the Departments have sought legal advice or opinion.
		Attending of Legal matters, labour, civil and criminal matters.	13	62	15	Only few matters were reported.
		Legal assistance in drawing of contracts (labour contracts, civil contracts, service level agreements	13	65	17	Only few Departments sought legal assistance.
		Recommendation on appointing legal representatives including senior counsels	0	40	2	Not consulted in most instances when lawyers were being appointed.
		Research on legal matters	17	61	33	Research is done only when a need arises.



## CHAPTER 3: FINANCIAL PERFORMANCE

### REPORT OF THE AUDIT COMMITTEE FOR THE YEAR ENDED 30 JUNE 2010

We are pleased to present our report for the financial year ended 30 June 2010.

#### Audit Committee Members and Attendance:

The Audit Committee consisted of the members listed hereunder. During the current year, only one (1) meeting was held.

Name of Member	Number of Meetings Attended
Mr. MP Tshake (Chairperson)	1
Mr. KT Makhale	1
Mr. LW Tau	1
Mr. DS Moletsane	1

All four (4) members of the Audit Committee were appointed on the 01 April 2010 and are independent, with no interest in the management or conduct of the business of the Municipality.

#### Audit Committee Responsibility

The committee reports that it has not fully complied with its responsibilities arising from section 166 (2) of the Municipal Finance Management Act, 56 of 2003 as it was only established in the last quarter of the financial year.

The Audit Committee further reports that, it has adopted appropriate formal terms of reference as its Audit Committee Charter.

#### The Effectiveness of Internal Control

The system of internal controls applied by the municipality was not entirely effective for the year under review. During the year under review, several deficiencies in the system of internal controls, deviations and non compliance to the relevant legislative prescripts were reported by the Internal Auditors and Auditor-General: South Africa. In addition to the above, the municipality did not implement risk management strategies to manage risks facing the municipality and in certain instances the matters reported previously have not been fully and satisfactorily addressed.

Notwithstanding the above, the Audit Committee is concerned at the exceedingly slow rate to put mechanisms in place to address these weaknesses. The Committee continues to monitor progress by the municipality in addressing the weaknesses reported.

#### The quality of in year management and monthly / quarterly reports submitted in terms of the MFMA and the Division of Revenue Act

The Audit Committee has not been presented with the **monthly / quarterly reports** for review and discussion with the Accounting Officer during the year under review.

#### Evaluation of Financial Statements

The Audit Committee has:

- reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General: South Africa and the Accounting Officer;
- reviewed the Auditor-General's management report and management response thereto, and
- reviewed any significant adjustments resulting from the audit.

The Audit Committee concurs and accepts the Auditor-General's conclusions on the annual financial statements, and is of the opinion that the audited financial statements be accepted and read together with the report of the Auditor-General.

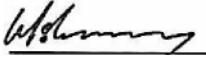
#### Internal Audit Function

Audit Committee reports that the Municipality had an Internal Audit Function which operated in accordance with the Internal Audit Charter and Internal Audit Plan during the year under review. .

# CHAPTER 3: FINANCIAL

**Auditor-General South Africa**

The Audit Committee has met with the Auditor-General South Africa to ensure that there are not any unresolved issues.



**MP Tshake**

**Date: 10/12/2010**

# CHAPTER 3: FINANCIAL

The Accounting Officer  
Setsoto Local Municipality  
PO Box 116  
Ficksburg  
9730

27 November 2010

21388REG09/10

Dear Sir

## **MANAGEMENT REPORT ON THE REGULARITY AUDIT OF THE SETSOTO LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2010**

### **INTRODUCTION**

1. This management report relates to our audit of the financial statements and the review of the performance information for the year ended 30 June 2010.
2. The report contains the following main subsections:
  - The Auditor-General's responsibilities
  - The accounting officer's responsibilities
  - Misstatements in the financial statements
  - Matters to be brought to the attention of the users
  - Other legal and regulatory reporting requirements
  - Information technology systems
  - Specific focus areas
  - Details of significant deficiencies in internal control relevant to the audit of the financial statements, reporting on predetermined objectives and compliance with laws and regulations
  - Remedial action taken on audit outcomes of prior years
  - Matters that may give rise to future audit findings if not addressed
  - Ratings of the audit findings
  - Summary of detailed audit findings
3. Annexures A, B and C contain information on the detailed audit findings. The detailed findings were communicated during the course of the audit and this report includes management's responses (where received).

# CHAPTER 3: FINANCIAL PERFORMANCE

## THE AUDITOR-GENERAL'S RESPONSIBILITIES

1. Our responsibility is to express an opinion on the financial statements and to report on findings related to our review of the report on predetermined objectives and compliance with key laws and regulations. Our engagement letter sets out our responsibilities in detail. These include the following:
  - Planning and performing the audit to obtain reasonable assurance about whether the financial statements and report on predetermined objectives are free from material misstatements, whether caused by fraud or error.
  - Performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and report on predetermined objectives. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements.
  - Considering internal controls relevant to the entity's preparation and fair presentation of the financial statements, the report on predetermined objectives and compliance with laws and regulations.
  - Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management.
  - Evaluating compliance with applicable legislation regarding financial matters, financial management and other related matters.
  - Evaluating the appropriateness of systems and processes to ensure the accuracy and completeness of reporting on predetermined objectives.
  - Evaluating the overall presentation of the financial statements.
  - Expressing an opinion on the financial statements based on the audit in accordance with the International Standards on Auditing (ISAs).
  - Reading other information in documents containing the audited financial statements.
2. Because of the test nature and other inherent limitations of an audit, we do not guarantee the completeness and accuracy of the financial statements or report on predetermined objectives, or compliance with all applicable legislation.
3. Having formed an opinion on the financial statements, we may include additional communication in the auditor's report that does not have an effect on the auditor's opinion. The following paragraphs could be included in the auditor's report:
  - An emphasis of matter paragraph to draw users' attention to a matter presented or disclosed in the financial statements which is of such importance that it is fundamental to their understanding of the financial statements.
  - An additional matter paragraph to draw users' attention to any matter, other than those presented or disclosed in the financial statements, that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

# CHAPTER 3: FINANCIAL PERFORMANCE

## THE ACCOUNTING OFFICER'S RESPONSIBILITIES

4. The accounting officer's responsibilities are set out in detail in the engagement letter. These include the following:
  - The preparation and fair presentation of the financial statements in accordance with the applicable reporting framework.
  - Designing, implementing and maintaining internal controls relevant to the preparation of the financial statements.
  - Selecting and applying appropriate accounting policies, and making accounting estimates that are appropriate in the circumstances.
  - Disclosing known instances of non-compliance or suspected non-compliance with laws and regulations, the effects of which should be considered when preparing financial statements.
  - Monitoring of, and reporting on, performance against predetermined objectives.
  - Providing access to all information that is relevant to the preparation of the financial statements and performance information, such as records and documents.
  - Disclosing all matters concerning any risk, allegation or instance of fraud.
  - Accounting for and disclosing related-party relationships and transactions.

## MISSTATEMENTS IN THE FINANCIAL STATEMENTS

### Material misstatements not corrected

5. The following material misstatements arose from a difference between the amount, classification or presentation of a reported financial statement item and the amount, classification or presentation that is required in accordance with the applicable financial reporting framework.

## CHAPTER 3: FINANCIAL PERFORMANCE

MATERIAL MISSTATEMENTS		DR	CR	INTERNAL CONTROL DEFICIENCY
FINANCIAL STATEMENT LINE ITEM	REASON FOR MISSTATEMENT	R	R	
Property, plant and equipment	Information not captured on financial system	2 501 939		Actions are not taken to address risks relating to the achievement of complete and accurate financial and performance reporting
Accumulated Surplus			2 501 939	
Property, plant and equipment	Information not available	2 463 466		Control weaknesses are not analysed, and appropriate follow-up actions are not taken that address root causes
Trade and other receivables			2 463 466	
Impairment losses: finance leases	Information not available	2 499 868		The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control
Property, plant and equipment			2 499 868	
Value added tax	Information not available	2 124 476		Directive, preventive and detective controls are not adequate and focused on achieving efficient resource usage and effectiveness, as measured by the extent to which specific control objectives are achieved
General expenses			2 124 476	
Finance Leases			2 287 980	Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed
Operating leases	Incorrect application of substance over form	2 287 980		

# CHAPTER 3: FINANCIAL PERFORMANCE

The following material misstatements arose from a difference between the disclosures in the financial statements and the disclosures required by the financial reporting framework.

MATERIAL MISSTATEMENTS		AMOUNT R	INTERNAL CONTROL DEFICIENCY
FINANCIAL STATEMENT LINE ITEM	REASON FOR MISSTATEMENT		
Irregular expenditure	Councillor overpayment	1 183 153	The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control

6. The following misstatements resulted from the auditor being unable to obtain sufficient appropriate audit evidence, due to the documentation or information requested not having been made available by management:

MATERIAL MISSTATEMENTS		AMOUNT OF MISSTATEMENT	AFFECTED ASSERTION	INTERNAL CONTROL DEFICIENCY
FINANCIAL STATEMENT LINE ITEM	REASON FOR MISSTATEMENT			
Property, plant and equipment	Information not available	R323 938 733	Co, Ex	Actions are not taken to address risks relating to the achievement of complete and accurate financial and performance reporting
Inventory	Information not available	R1 281 881	Rights, Va, Ex, Co	The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control of inventory
Conditional Grants	Information not available	R32 205 544	Co, Va, Ex	Proper record keeping and record management; the documents supporting the above are not properly filed and easily retrievable
Receivables	Information not available	R2 754 930	Ex, Va	Proper record keeping and record management; the documents supporting the above are not properly filed and easily retrievable
Capital Commitments	Information not available	R58 348 509	Obligations, Co, Valuation	Proper record keeping and record management; the documents supporting the above are not properly filed and easily retrievable

## CHAPTER 3: FINANCIAL PERFORMANCE

MATERIAL MISSTATEMENTS		AMOUNT OF MISSTATEMENT	AFFECTED ASSERTION	INTERNAL CONTROL DEFICIENCY
FINANCIAL STATEMENT LINE ITEM	REASON FOR MISSTATEMENT			
General Expenses	Information not available	R9 094 572	Oc, Co	Proper record keeping and record management; the documents supporting the above are not properly filed and easily retrievable
Bank	Information not available	R16 938 181	Valuation, Co	Proper record keeping and record management; the documents supporting the above are not properly filed and easily retrievable

7. The following misstatements were identified during the prior year audit and had not been corrected by management at the date of this report.

MATERIAL MISSTATEMENTS		DR	CR	INTERNAL CONTROL DEFICIENCY
FINANCIAL STATEMENT LINE ITEM	REASON FOR MISSTATEMENT	R	R	
<i>Property, plant and equipment</i>	<i>Information not available</i>	<i>R10 333 150</i>	<i>Co, Valuation, Ex</i>	Proper record keeping and record management; the documents supporting the above are not properly filed and easily retrievable
<i>Inventory</i>	<i>Information not available</i>	<i>R573 880</i>	<i>Co, Valuation, Ex</i>	The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control of inventory

### Material misstatements corrected

8. The misstatements included in the two categories below were identified during the audit and have been corrected by management. These misstatements were not prevented or detected by the municipality's system of internal control. We urge management to address the matters reflected as the internal control deficiency for the misstatements.

# CHAPTER 3: FINANCIAL PERFORMANCE

MATERIAL MISSTATEMENTS		DR	CR	INTERNAL CONTROL DEFICIENCY
FINANCIAL STATEMENT LINE ITEM	REASON FOR MISSTATEMENT	R	R	
None				

## MATTERS TO BE BROUGHT TO THE ATTENTION OF THE USERS

### EMPHASIS OF MATTER PARAGRAPHS

An emphasis of matter paragraph will be included in our auditor's report to highlight the following matters to the users of the financial statements:

#### Unauthorised / fruitless and wasteful/ and irregular expenditure

- (Ex.59) The completeness of irregular expenditure of R24 399 205 disclosed in note 37.3 to the financial statements could not be determined owing to a lack of sufficient, appropriate audit evidence. Further instances of this type of unwanted expenditure were identified. Details are as follows:

#### MUNICIPAL SYSTEMS ACT OF SOUTH AFRICA, 2000 (ACT NO 32 OF 2000) (MSA)

- (Ex.19, Ex.91, Ex.115) Contrary to the section 56(b) of the MSA and paragraph 4.3 of the in-house policy, the municipality failed to submit sufficient, appropriate audit evidence to substantiate that the incumbents complied with the minimum job requirements in terms of skills and expertise. Included in note 25 to the financial statements are payments made to section 55 and 57 managements totalling R1 709 096 (2009: R1 197 996) which should be considered irregular as in terms of section 1 of the MFMA.

#### REMUNERATION OF PUBLIC OFFICER BEARERS ACT OF SOUTH AFRICA, 1998 (ACT NO 20 OF 1998)

- (Ex. 59) Contrary to section 7(1) of the Act, councillors were paid R1 183 153 more than what was approved by the Minister and details of this irregular expenditure was not disclosed in the note to the financial statements in line with section 125(2)(d) of the MFMA.
- (Ex.22) According to note 37.3 irregular expenditure of R173 820 (2008: R687 587) was incurred in the previous financial years but has not been recovered during the year under review. Further details on this irregular expenditure is also not disclosed as per the requirements of section 125(2)(d) of the MFMA.

#### VALUE ADDED TAX ACT OF SOUTH AFRICA, 1991 (ACT NO 89 of 1991)

- (Ex.77) Contrary to section 20(4) of the Act, value added tax were incorrectly claimed and paid to suppliers resulted in fruitless and wasteful expenditure of R914 496 that should be recovered from the supplier concerned in terms of section 32(2) of the MFMA.

#### MUNICIPAL SUPPLY CHAIN MANAGEMENT POLICY, 2005 (SCM POLICY)

- (Ex.78) Payments of R2 709 761 were made contrary to paragraph 5(1) of the SCM policy with regard to the approval thereof which is considered to be of an irregular nature.
- (Ex.33, Ex.62, Ex.117, Ex.127) Irregular expenditure of R6 627 500 were identified as a result of non compliance to paragraphs 19(1) of the SCM policy that requires competitive bidding for contracts above R200 000 and section 116(2) of the MFMA that requires an accounting officer to enforce the conditions of the contract.
- (Ex.103, Ex.120, Ex.124) Unwanted expenditure that is classified as fruitless and wasteful were identified for payments totalling R1 105 271 is a result of delays during the external audit, wages on a LED project and materials and deposits that were stolen/damaged.

# CHAPTER 3: FINANCIAL PERFORMANCE

## Material underspending of the budget

17. As disclosed in note 23.2 to the financial statements, the municipality has materially underspent the spending of the municipal infrastructure grant to the amount of R28 823 429 . As a consequence, the municipality has not achieved its objectives of improving infrastructure assets during the financial year.

## Going concern

18. While the Setsoto local municipality has prepared financial statements on a going concern basis, there are a number of indicators that its financial sustainability is under threat. These include the following:

- The average debtors payment period has deteriorated from 392 days to 438 days to 120 days, the provision towards a fund for doubtful debt were increased by a further R79 879 078 which result in a total impairment of trade debtors and other receivables of 77% of R181 million of R234,7 million.
- Net cash and cash equivalents at end of period deteriorated to R16 533 400 (2009: 14 591 893) and the bank overdraft to R20189 599 (2009: R18 075 933)
- Debtors further deteriorated to R234,7 million (2009: R200,5m) in the year under review.

These and other conditions disclosed in note 46 to the financial statements is indicative of the threats the municipality face to continue existing as a going concern

## Other matters

### ADDITIONAL MATTER PARAGRAPHS

An additional matter paragraph will be included in our auditor's report to highlight the following matter to the users of the financial statements:

### Unaudited supplementary schedules

19. The supplementary information set out on pages 34 to 49 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.

### OTHER LEGAL AND REGULATORY REPORTING REQUIREMENTS

#### Report on predetermined objectives

Included below are the findings identified during our audit of the report on predetermined objectives.

#### Introduction

20. As required by section 13 of the PAA read with General Notice 1570 of 2009, issued in Government Gazette 32758 of 27 November 2009 and section 45 of the MSA my responsibility is to prepare an audit conclusion on the reporting of performance against predetermined objectives. As part of the readiness strategy this audit conclusion is issued as part of the
21. management report for the year under review.

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22. My engagement was performed in accordance with the International Standards on Assurance Engagements (ISAE) 3000: Assurance Engagements other than Audits or Reviews of Historical Information issued by the International Auditing and Assurance Board.
23. In the conclusion I will comment if any disclosures in the annual performance report relating to the selected programmes or objectives, performance indicators and targets, are inconsistent with the engagement. Furthermore, I will comment on whether I have received all the information and explanations required to conduct the engagement, or if I became aware of additional information, the omission of which may result in the selected performance indicators and targets being materially misstated or misleading.

## **Scope of the assurance engagement**

24. I believe that the evidence obtained from the work performed provides an appropriate basis for the limited assurance conclusion expressed below.

## **Work performed**

25. As required by section 13 of the PAA read with General Notice 1570 of 2009, issued in Government Gazette 32758 of 27 November 2009 and section 45 of the MSA my responsibility is to prepare an audit conclusion on the reporting of performance against predetermined objectives. Because of the matters described in the basis for disclaimer of audit conclusion paragraphs, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

## **Basis for disclaimer of conclusion**

### **Inadequate content of integrated development plan**

26. The integrated development plan of the Setsoto local municipality did not include the key performance indicators and performance targets determined in terms of its performance management system, as required by sections 26(i) and 41(1)(b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.

### **No reporting against predetermined objectives, indicators and targets**

27. (Ex.36) The Setsoto local municipality did not prepare the annual performance report in terms of section 46 of the MSA, and section 121(3)(c) of the MFMA.
28. Contrary to the requirements of sections 38(a) and (b) and 40 of the MSA, except for the municipal manager and managers reporting to him in terms of section 57, no appropriate systems were in place to ensure that the performance of municipal staff was reviewed continuously and steps were taken to address any shortcomings identified during this process.
29. In terms of section 34(a) of the MSA, the municipal council must review the integrated development plan that covers the components outlined in section 41 of the MSA at least once in a year. Contrary to this requirement, sufficient appropriate audit evidence could not be obtained that all departments of the municipality regularly reported on the performance of their staff and suppliers and that the results of these reviews were submitted to the council to consider.

## **Disclaimer of opinion**

30. Because of the significance of the matters described in the Basis for disclaimer of conclusion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for a conclusion. Accordingly, I do not express a conclusion on the reported information.

## **Other matters**

I draw attention to the following matter(s) that relate(s) to my responsibilities in the audit of reported performance predetermined objectives.

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## **Non-compliance with applicable legislation**

Included below are findings related to material non-compliance with the acts as indicated.

### **The annual budget was not prepared, tabled and approved in accordance with the applicable laws and regulations**

31. The mid-year assessment budget was not prepared in the format prescribed by section 21 of the MFMA.
32. Contrary to section 28(3) and 28(4) of the MFMA, the mayor did not table an adjustment budget in the municipal council.
33. Contrary to section 24(1) of the MFMA, the municipal council did not approve the 2009-10 budget at least 30 days before the start of the budget year.

### **Expenditure was incurred otherwise than in accordance with sections 15 and 11(3) of the MFMA resulting in unauthorised expenditure**

34. As disclosed in note 37 to the financial statements, expenditure was not incurred in accordance with the approved budget of the municipality and exceeded the limits of the amounts appropriated for the different votes in the approved budget of the municipality.

### **Expenditure was incurred in contravention of or not in accordance with applicable legislation resulting in irregular expenditure**

35. Expenditure was not incurred in accordance with the requirements of the MFMA as set out in section 1 the definition of "irregular expenditure" paragraph (a) of the MFMA.
36. National Treasury did not condone the expenditure that was incurred in contravention of the MFMA as set out in section 1 the definition of "irregular expenditure" paragraph (a) of the MFMA.
37. Expenditure was not incurred in accordance with the requirements of the Public Office-Bearers Act as set out in section the definition of "irregular expenditure" paragraph (c) of the MFMA.
38. Expenditure was not incurred in accordance with the requirements of the supply chain management policy of the municipality or the requirements of the municipality's by-laws giving effect to such policy as set out in section 1 the definition of "irregular expenditure" paragraph (d) of the MFMA.

### **Expenditure incurred was made in vain or could have been avoided resulting in fruitless and wasteful expenditure**

39. As disclosed in note 37 to the financial statements, expenditure incurred was made in vain, and could have been avoided based on the fact that reasonable had been exercised, as set out in section 1 the definition of "fruitless and wasteful expenditure" of the MFMA.

### **The mayor did not adhere to his legislative reporting responsibilities**

40. In terms of sections 127(2) and 127(3) of the MFMA, the mayor of a municipality must, within seven months after the end of a financial year, table in the municipal council the annual report of the municipality. The mayor did not comply with this requirement of the MFMA.

### **The accounting officer did not adhere to his statutory responsibilities**

41. Contrary to section 71 of the MFMA, the accounting officer did not report on the municipality's financial affairs to the mayor, and the provincial treasury.
42. Contrary to the requirements of section 72(1)(a) and (b) of the MFMA, the municipal manager did not by 25 January assess the performance of the municipality for the first half of the financial year and did not submit a report on such an assessment to the mayor of the municipality, the National Treasury and the relevant provincial treasury, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan, as required by section 72 of the MFMA.

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## **Municipal officials did not adhere to their statutory responsibilities**

43. Contrary to section 70(2) and (3) of the MFMA, evidence could not be obtained that the municipality notified the National Treasury of the overdrawn bank account position. The bank balance was overdrawn for a major part of the financial year.
44. Senior managers of the municipality exercising financial management responsibilities did not ensure that assets with a cost price of R20 049 609 were properly maintained in terms of section 78(1) of the MFMA.

## **The reports were not prepared in accordance with applicable legislation**

45. According to section 129(1) of the MFMA, a council of a municipality must consider the annual report of the municipality and by no later than two months from the date on which the annual report was tabled in the council in terms of section 127, adopt an oversight report containing the council's comments on the annual report. The municipality did not have an oversight committee that could consider the annual report of the municipality, as envisaged in terms of section 129(1) of the MFMA.

## **The audit committee was not properly established or not functioning properly**

46. Contrary to section 166(2) of the MFMA, the audit committee did not discharge its mandate effectively.

## **Supply Chain Management legislative requirements were not implemented or not adhered to (not resulting in irregular expenditure)**

47. Goods and services were supplied by the provider and payment made to the provider without a written signed contract
48. Contrary to section 116(2) of the MFMA, which requires an accounting officer to enforce the conditions of contracts, contracts awarded in previous years totalling R39 539 289 were not monitored and the conditions enforced.
49. Annual declarations of interest were not made by the mayor/councillors/ senior managers/ municipal manager

## **Division of Revenue Act**

### **The accounting officer did not adhere to his statutory responsibilities**

50. Contrary to the requirements of section 42(1)(a) of DoRA, the accounting officer did not submit the budget to the National Treasury by 14 April 2009.
51. The municipality did not adhere to the conditions attached to conditional grants.

## **INTERNAL CONTROL**

### **Internal control table**

The following table indicates the achievement of the objectives of internal control as they relate to the three fundamentals of internal control. The assessment is based on significant deficiencies which give rise to matters included in the auditor's report as the basis for the disclaimer opinion on the financial statements and for findings on predetermined objectives and compliance with laws and regulations. The reasons for this assessment are discussed below. Other deficiencies in internal control, which require the attention of management, are included in the detailed findings attached to this report.

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Fundamental of internal control Objectives of internal control	Operational	Accountability and reporting	Compliance	Safeguarding of resources
	Achieved? Yes/No	Achieved? Yes/No	Achieved? Yes/No	Achieved? Yes/No
<b>Leadership</b>				
• Oversight responsibility	No	No	No	No
• Tone at the top	No	No	No	No
• Action to mitigate risks	No	No	No	No
<b>Financial and performance management</b>				
• Quality, reliable annual financial statements	No	No	No	No
• Proper record keeping	No	No	No	No
• Adequate systems	No	No	No	No
<b>Governance</b>				
• Risk identification	No	No	No	No
• Fraud prevention	No	No	No	No
• Internal audit	Yes	Yes	No	No
• Audit committee	No	No	No	No

## Achievement of internal control objectives

52. Below is a summary of the internal control deficiencies that resulted in the above assessment and that gave rise to the basis for the disclaimer opinion on the financial statements as well as findings on predetermined objectives and compliance with laws and regulations. Additional information on significant internal control deficiencies is provided later in this report.

- Leadership

Management's philosophy and operating style does not promote effective control over reporting and they do not lead by example.

Accountability to the public is not emphasised and quality is not understood by all to be a prerequisite and is not embedded in the entity's values. Performance is not measured.

- Financial and performance management

Management and staff do not fulfil their duties and responsibilities while pertinent information is not identified and captured in a form and time frame to support financial and performance reporting. Requested information was not available and supplied without any significant delay. Systems are not appropriate to facilitate the preparation of the financial statements and performance reports.

- Governance

The entity does not identify risks relating to the achievement of financial and performance reporting objectives. Internal audit reports are not taken serious and lead to repeat findings that are not resolved. The audit committee did not fulfill its responsibilities as set out in legislation and in accordance with accepted best practice.

- Contrary to section 63(2) (c) of the MFMA the municipality do not maintains a system of internal control of assets

# CHAPTER 3: FINANCIAL PERFORMANCE

## OTHER REPORTS

### Investigations

#### Investigations in progress

53. (Ex.99) The executive committee of the council ordered by way of item 7.2 of a meeting held on 23 February 2010 an internal investigation into the spending of monies on the raw water project in Marquard where money were paid for unequal work performed by the service provider 24 TM Bokamosa and to unaccounted for all moneys 14 days. At time of this audit, this investigation has not been started and management could not provide any reasons why this resolution has not been implemented.

#### Agreed upon procedures engagement

54. As requested by the municipality, an engagement was conducted during the year under review concerning the administration and monitoring of certain contracts and tenders relating to the establishment of landfill sites. The report covered the period March 2002 to July 2009 and was still in process at time of this report.

## INFORMATION TECHNOLOGY SYSTEMS

### Change control

#### Users not required to sign policy to declare compliance

#### Audit finding

55. Users were not required to formally acknowledge their obligation to adhere to the rules and regulations set out in the information technology (IT) policy. Management might consequently not be able to hold users responsible and accountable for not complying with the policy.

#### Internal control deficiency

Lack of accountability to ensure the implementation of proper IT controls; lack of proper IT governance

#### Recommendation

Management should ensure that a process is implemented that would require users to sign the policy as a declaration of intent to comply with the rules and regulations as set out in the policy.

#### Management response

Responsible official:

Position:

Action date:

#### Auditor's conclusion

A management response was not received at the time of finalising the communication of findings.

# CHAPTER 3: FINANCIAL PERFORMANCE

## Weaknesses in user accounts and access management

### Audit finding

56. The following weaknesses were noted in the user access management process:

- The IT security policy did not make reference to the maximum number of password login attempts allowed before lockout on both the network and the applications. Furthermore, Finstel username and password/access codes were not set up in accordance with the security policy in terms of complexity as the use of numeric characters only was allowed. Passwords that are not appropriately configured increase the possibility of unauthorised access and of attackers being able to guess the passwords.
- The IT policy made no provision for user activity logs to be set up for the network and the Finstel and VIP Payroll systems. If activities are not logged and monitored by an independent user, unauthorised activities might not be detected.
- A user access management policy and procedure had not been established for the network and the Finstel and VIP Payroll systems. Without a formal user account management process, the users of a system do not have rules and guidelines to follow when requesting new access, changes to user access or password resets. The integrity, confidentiality and reliability of the system might consequently be compromised.
- Logs of the activities of users with controller/admin privileges on the Finstel System were not formally monitored and reviewed. If activities are not logged and monitored by an independent user, unauthorised activities might not be detected.
- The user access list for Finstel could not be obtained and programmers' access could therefore not be inspected. Users with controller/admin privileges have full control over systems and if their activities are not logged and monitored by an independent user, unauthorised activities might not be detected.
- Employees' current access and privileges on the network and the Finstel and VIP Payroll systems were not regularly reviewed to ensure that their access and privileges were still commensurate with their job responsibilities. Unauthorised users might consequently obtain access to systems.

### Internal control deficiency

Lack of accountability to ensure the implementation of proper IT controls; lack of proper IT governance

### Recommendation

Management should implement a standard user access administration process to ensure that user activities (especially the activities of users with administrative privileges) are logged, monitored and regularly reviewed by an independent user to detect unauthorised activities and access violations. All user IDs on the systems and applications should be linked to specific persons to ensure accountability. Management should also ensure that a standard password policy that is in line with good practice is documented in the security policy and is configured on the network and applications.

### Management response

Responsible official:

Position:

Action date:

### Auditor's conclusion

A management response was not received at the time of finalising the communication of findings.

# CHAPTER 3: FINANCIAL PERFORMANCE

## IT Governance

### Network layout diagram not formally documented

#### Audit finding

57. A network layout had not been formally documented and approved. Without a network diagram to provide an understanding of the network components to which the application systems are connected, it might not be possible to prevent unauthorised access to the network. Furthermore, if a firewall does not exist, it would be impossible to prevent unauthorised access to the application systems and network components.

#### Internal control deficiency

Lack of accountability to ensure the implementation of proper IT controls; lack of proper IT governance

#### Recommendation

Management should ensure that the network diagram is documented and approved. This document would contribute to an understanding of the network components to which the application systems are connected and would assist management in ensuring that the network is adequately segmented and secured. Furthermore, management should ensure that the diagram is formally updated whenever changes are effected to the network.

#### Management response

Responsible official:

Position:

Action date:

#### Auditor's conclusion

A management response was not received at the time of finalising the communication of findings.

## Security management

### Lack of a firewall and a firewall policy or procedure

#### Audit finding

58. A firewall had not been installed and a firewall policy or procedure had not been formally established to ensure standardised configuration throughout the network. If a firewall does not exist or does not support the entity's security requirements, network security is not effectively controlled and it might consequently be impossible to prevent hackers from gaining unauthorised access to the application systems and network components by exploiting network security weaknesses.

Policies and procedures ensure that good practice will be followed in the management of the firewall and reduce the risk of poor governance over firewall administration and maintenance.

#### Internal control deficiency

Lack of accountability to ensure the implementation of proper IT controls; lack of proper IT governance

#### Recommendation

Management should ensure that a formal firewall policy is drafted and approved to provide effective governance over firewall administration and maintenance.

#### Management response

Responsible official:

Position:

Action date:

# CHAPTER 3: FINANCIAL PERFORMANCE

## **Auditor's conclusion**

A management response was not received at the time of finalising the communication of findings.

## **No patch management policy or procedure**

### **Audit finding**

59. No provision had been made for a patch management process to ensure that the required patches and updates would be installed on the operating systems, application systems, database and application services.

Security patches address important security issues in between service packs. If they are not installed and managed, the systems might be exposed to vulnerabilities that could be exploited to gain unauthorised access.

### **Internal control deficiency**

Lack of accountability to ensure the implementation of proper IT controls; lack of proper IT governance

### **Recommendation**

Management should approve and implement a process for managing patches on the entity's network and systems. Management should also ensure that unused network services are disabled.

### **Management response**

Responsible official:

Position:

Action date:

## **Auditor's conclusion**

A management response was not received at the time of finalising the communication of findings.

## **Outdated antivirus definitions**

### **Audit finding**

60. It was noted that the antivirus definitions were outdated. If antivirus software is out of date, system performance and availability might be impacted by virus infections.

### **Internal control deficiency**

Lack of a formal process to ensure that virus definitions would periodically be updated

### **Recommendation**

Management should ensure that the antivirus software is regularly updated.

### **Management response**

Responsible official:

Position:

Action date:

# CHAPTER 3: FINANCIAL PERFORMANCE

## **Auditor's conclusion**

A management response was not received at the time of finalising the communication of findings.

## **IT Service Continuity**

### **Outdated information technology policy**

#### **Audit finding**

61. The IT policy was outdated and no evidence was available to confirm that it had been approved by management. If an IT policy is not regularly updated, it may no longer be consistent with the current IT environment.

#### **Internal control deficiency**

Lack of accountability to ensure the implementation of proper IT controls; lack of proper IT governance

#### **Recommendation**

Management should implement a process to ensure that the IT policy is periodically reviewed and updated. This process should also be documented in the policy and it should be indicated to whom the responsibility for reviewing the policy has been assigned.

#### **Management response**

Responsible official:

Position:

Action date:

## **Auditor's conclusion**

A management response was not received at the time of finalising the communication of findings.

### **Lack of database security policy for Finstel and VIP Payroll systems**

#### **Audit finding**

62. A formal policy was not in place to address the security of the databases used by the Finstel and VIP Payroll systems.  
The lack of an approved database-related policy increases the risk of databases being insecurely configured and managed.

#### **Internal control deficiency**

Lack of accountability to ensure the implementation of proper IT controls; lack of proper IT governance

#### **Recommendation**

Management should ensure that database-related policies are drafted and approved at the appropriate level of management in order to enforce the security standards.

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## **Management response**

Responsible official:

Position:

Action date:

## **Auditor's conclusion**

A management response was not received at the time of finalising the communication of findings.

## **Change management policy not in place**

### **Audit finding**

63. A formally approved change management policy or procedure was not in place to ensure that users would follow a formal process when effecting changes to either Finstel or VIP Payroll. It was also noted that the vendor providing administrative services on Finstel and VIP Payroll had access to the production environments of these systems.

The lack of policies/procedures for program change management could result in unauthorised changes being made to systems, or changes being made without being properly tested first, supporting change request documentation not being submitted and maintained for changes made, and changes being made that do not address user requirements.

### **Internal control deficiency**

Lack of a standard, formalised change management process and user access management policy or procedure

### **Recommendation**

Management should formally document and approve the change management policy/ procedures to ensure standardisation and control over changes made to systems and programs and also to ensure that the activities performed by the vendors on the systems are regularly monitored / reviewed to confirm that only approved activities are being carried out. Vendors' access to the production environments should be revoked and only the municipality's IT employees should be granted access to the production environments of the Finstel and VIP Payroll systems.

## **Management response**

Responsible official:

Position:

Action date:

## **Auditor's conclusion**

A management response was not received at the time of finalising the communication of findings.

## **Lack of policy to govern physical access**

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## **Audit finding**

64. Policies regarding physical access to IT environments had not been established. It was also noted that visitors to the server room were not required to sign a register.

The lack of an approved policy for physical access to sensitive areas (computer room, operations, printing rooms, storage rooms, uninterruptible power supply (UPS) units and generators, network rooms, tape library, off-site backup storage facility) increases the risk of data and systems being insecurely located and vulnerable to compromise. Furthermore, without such policies, the enforceability of control procedures becomes difficult.

## **Internal control deficiency**

Lack of accountability to ensure the implementation of proper IT controls; lack of proper IT governance

## **Recommendation**

Management should ensure that the information security policy includes all the necessary environmental and physical access controls for the server room and that it is approved at the appropriate level of management. A visitors' register should also be implemented and visitors should be required to sign it before they are granted access to the server room.

## **Management response**

Responsible official:

Position:

Action date:

## **Auditor's conclusion**

A management response was not received at the time of finalising the communication of findings.

## **Weaknesses in backup and recovery processes**

### **Audit finding**

65. The following weaknesses were noted with regard to the municipality's backup and recovery processes:

- No evidence could be obtained for review purposes of backup schedules having been compiled. The lack of a formal backup and retention strategy could lead to backups not being consistently made according to a standardised process, which could also lead to a loss of data and management consequently not being able to recover data in the event of a disaster.
- It was also noted that backups were not kept off site, as required by the policy. The lack of backups of the critical media and documentation required for recovery could result in the entity not being able to recover its operations in the event of a disaster.
- Restoration procedures were not regularly performed to ensure that users would be familiar with the process and that backups would be restorable when needed.

### **Internal control deficiency**

Lack of accountability to ensure the implementation of proper IT controls; lack of proper IT governance

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## **Recommendation**

Management should document and approve the backup and recovery strategy/policy to ensure that a standard process is followed for backups, as well as for the retention and restoration of data to prevent loss of data. An off-site storage facility for backups should also be established to ensure that management would be able to make use of the backup tapes to recover from a disaster

## **Management response**

Responsible official:

Position:

Action date:

## **Auditor's conclusion**

A management response was not received at the time of finalising the communication of findings.

## **Lack of evidence of transaction processing**

### **Audit finding**

66. No evidence could be obtained of sequential identifiers being assigned to the transactions on the VIP Payroll System.

The lack of unique transaction numbering could result in, among others, duplicate transactions not being detected and transactions not being traceable.

### **Internal control deficiency**

Lack of accountability to ensure the implementation of proper IT controls; lack of proper IT governance

## **Recommendation**

Management should implemented proper controls to ensure that all transactions on the VIP Payroll System are assigned unique identifiers to prevent duplicate transactions from being captured.

## **Management response**

Responsible official:

Position:

Action date:

## **Auditor's conclusion**

A management response was not received at the time of finalising the communication of findings.

## **Lack of business rules**

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## **Audit finding**

67. The business rules that should be enforced within the Finstel and VIP Payroll systems had not been formally documented.

The lack of documented and approved business rules might result in inconsistencies in the business processes should the individuals who are familiar with these business rules be unavailable. Delays in turnaround times in the processing of transactions, deterioration in the quality of services provided, customer dissatisfaction and other undesired results might as a consequence be experienced.

## **Internal control deficiency**

Management oversight in ensuring that all standard processes are defined, documented and approved

## **Recommendation**

Management should define and approve business rules, which should be enforced by the system and regularly be monitored.

## **Management response**

Responsible official:

Position:

Action date:

## **Auditor's conclusion**

A management response was not received at the time of finalising the communication of findings.

## **Facilities and environmental control**

68. **No environmental control policy in place**

## **Audit finding**

69. A policy had not been established in respect of the environmental controls in the computer room.

The lack of an approved environmental control policy increases the risk of IT environments being vulnerable to natural disasters and emergencies. Furthermore, without such standards, accountability cannot be assigned to the administrators responsible for the overall safety of the server room.

## **Internal control deficiency**

Lack of accountability to ensure the implementation of proper IT controls; lack of proper IT governance

## **Recommendation**

Management should implement an environmental control policy and procedures to ensure the safety of IT assets and personnel in case of a natural disaster or an emergency. This policy should include the installation and maintenance of fire suppression, water detection, power-regulating and temperature control systems.

## **Management response**

Responsible official:

Position:

Action date:

## **Auditor's conclusion**

A management response was not received at the time of finalising the communication of findings.

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## **No formal emergency evacuation plan**

### **Audit finding**

70. A formal, documented and tested emergency evacuation plan had not been compiled for the server room. The lack of a formal, documented and tested emergency evacuation plan for the server room constitutes a violation of the South African Occupational Health and Safety Act, Act No. 85 of 1993 and could lead to personnel not being aware of the emergency process to follow or where the emergency exits are in case of a disaster, which could ultimately lead to injuries and death.

### **Internal control deficiency**

Lack of accountability to ensure the implementation of proper IT controls; lack of proper IT governance

### **Recommendation**

Management should draft/approve and implement an emergency evacuation plan.

### **Management response**

Responsible official:

Position:

Action date:

### **Auditor's conclusion**

A management response was not received at the time of finalising the communication of findings.

## **Disaster recovery plan and business continuity plan not in place**

### **Audit finding**

71. A disaster recovery plan (DRP) and a business continuity plan (BCP) had not been established. Without a current and formally approved DRP and BCP the entity might not be able to recover its operations in the event of a disaster.

### **Internal control deficiency**

Lack of accountability to ensure the implementation of proper IT controls; lack of proper IT governance

### **Recommendation**

Management should ensure that a DRP and BCP are drafted and that they include all the relevant details and are approved at the appropriate level of management. The DRP and BCP should be tested at least once a year and be updated accordingly.

### **Management response**

Responsible official:

Position:

Action date:

# CHAPTER 3: FINANCIAL PERFORMANCE

## **Auditor's conclusion**

A management response was not received at the time of finalising the communication of findings.

## **Deficiencies in the fundamentals of internal control that gave rise to the above findings**

### **Leadership**

#### 72. IMPLEMENTATION OF APPROPRIATE KEY CONTROLS (POLICIES AND PROCEDURES)

- IT governance policies and procedures were not in place.
- The IT security policy was not adequate.
- Change control procedures/standards were not in place.
- Programmers were allowed access to production environment.
- User account management procedures were lacking.
- Users' access not periodically reviewed to ensure that it remained commensurate with their job responsibilities.
- Physical access to sensitive areas such as the computer room was not controlled.
- Environmental controls such as the fire suppression system, water detectors, humidity and temperature control system were not installed and an emergency evacuation plan did not exist.
- A disaster recovery plan (DRP) and business continuity plan (BCP) were not in place.
- Backup standards and procedures were inadequate.
- Backup tapes were not restored and not stored off site.

### **Financial and performance management**

#### 73. ADEQUACY OF SYSTEMS PREPARATION OF THE FINANCIAL STATEMENTS AND THE REPORT ON PREDETERMINED OBJECTIVES

- Security management and administration was inadequate to ensure the security of the network environment.
- Password controls were not adequate.

### **Governance**

74. Notwithstanding reminders, the management comments of the accounting officer were still outstanding at the time of compiling this report.

# CHAPTER 3: FINANCIAL PERFORMANCE

## SPECIFIC FOCUS AREAS

### Significant findings from the audit of procurement and contract management

75. The table below provides a summary of other findings on procurement and contract management as well as limitations experienced in performing the audit procedures relating to the audit findings. It provides an indication on the identified number of instances (#) of findings or limitations and the related rand value of the awards.

# CHAPTER 3: FINANCIAL PERFORMANCE

	Detail	Findings		Limitations	
		#	R- value	#	R- value
of	<b>Competitive bidding</b>				
and	Goods and services with a transaction value above R200 000 were not procured by means of a competitive bidding process and the deviation was not approved by the accounting officer or his/her delegate in accordance with the SCM policy.	1	480 306,04 (Ex.127)		
		1	399 671,00 (Ex.127)		
of	Contracts expected to impose future financial obligation on the municipality for more than the three years covered in the budget were not considered and approved in accordance with section 33(1) of the MFMA.	1	6 898 601,45 (Ex.117)		
		1	889 683,32 (Ex.127)		
or	<b>Contracts, contract management and payment</b>				
or	Goods and services were supplied by the provider and payment made to the provider without a written signed contract.	1	8 055 297,95 (Ex.12)		
	No action was taken against non performing contractors.	1	39 539 288,75 (Ex.127)		
	Payments were made for goods and services w either were not received or were not delivered in accordance with the criteria documented in the quotation or contract.	1	60 840,00 (Ex.103)		

76. (Ex.14) Contrary to the statutory requirement section 74(1) of the MFMA, the municipal manager did not submit to the national provincial treasury, the department for local government in the province or the Auditor-General monthly reports of contracts awarded above the value of R100 000 (VAT included) not later than 15th of each month for awards totalling R45 199 555.

77. (Ex.32) Section 46(2)(e) of Municipal Supply Chain Management Regulation (MSCMR) prescribes that: A municipal code ethical standards must stipulate that an official or other role player involved in the implementation of the supply chain management policy of the municipality must declare to the accounting officer details of any private or business interest which that person, or any close family member, partner associate, may have in any proposed procurement or disposal process of, or in any award of a contract by, the municipality municipal entity. Contrary to this requirement, the SCM officials did not comply with it in the year under review

78. (Ex. 33) As per SCM policy paragraph 19(1), long term contracts may only be procured through a competitive bidding process. Contrary to this requirement, no evidence could be obtained to prove that the competitive bidding process was followed in

## CHAPTER 3: FINANCIAL PERFORMANCE

the procurement of the two lease agreements capitalized during the current year. Expenditure amounting to R1 237 139,17 was incurred during the current year, which should be disclosed as irregular expenditure if read with the definition of irregular expenditure in section 1 of the MFMA.

79. (Ex.56) Management could not be provide me with sufficient, appropriate audit evidence to audit that would enable me to perform procedures necessary to audit compliance with section 44 of the municipality's supply chain policy that requires no awards to be made to persons / entities associated with the state or municipality, and that appropriate disclosures in respect of such awards are made in the financial statements in terms of section 45 of the SCM policy
80. (Ex.117) Contrary to the requirements of section 19 and 46 of the MFMA, the municipality entered into a long term agreement at prices that are not competitive without following the supply chain policy of the municipality and the provisions of the MFMA. During this year audit, we identified that the municipality has been committed for the next 5 years in a finance lease agreement with suppliers at prices that were not competitive. Items acquired during 2008/09 amounted to R708 548 but has been locked in a finance lease for a total of R5 139 560. In another instance, a finance lease agreement for 5 years were entered for R1 759 041 that otherwise could have been purchased for R224 997. Notwithstanding this being reported on in paragraph 15(b) of the 2008/09 audit report, the irregular expenditure of R5 139 560 were not investigated and appropriate steps taken to keep those responsible, accountable.

### **DETAILS OF SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL RELEVANT TO THE AUDIT OF THE FINANCIAL STATEMENTS, THE REPORT ON PREDETERMINED OBJECTIVES AND COMPLIANCE WITH LAWS AND REGULATIONS**

#### **LEADERSHIP**

##### **Oversight responsibility over reporting**

81. (Ex. Contrary to the requirements of Standing Rules and Orders, Chapter 2, Part 3, paragraph 13(a) council, special meetings and EXCO meeting minutes from 1 July 2009 to 30 June 2010 were scrutinized and it was identified that certain councillors were reported absent without any reason stated on the minutes. No monies were withheld for amounts totalling R24 192 in respect of a 10% fine as determined by rule 13(7)
82. (Ex.98) Contrary to the requirements of Section 5 of Schedule 1 - Code of conduct of councillors in the Municipal Systems Act, only the disclosures of interest of the two councillors could be obtained in the disclosure of interest register for councillors applicable to the 2009/10 financial year

##### **Availability of key personnel**

83. Weekly and biweekly meetings were scheduled from August 2010 through to November 2010. During these interactions, management were available and several meetings were held where the accounting officer, chief finance officer, internal auditor and the mayor attended. Problems were experienced in the latter half of our visit to the municipality when the municipal manager were absent on study leave or when other events were arranged. Notwithstanding intervention by Cogta during the November 2010, no positive impact on this audit was noted owing to the constraints with the availability of senior management. The more recent unavailability of senior management occurred in the week of 21 – 26 November 2010 when the chief finance officer and the mayor were out of office owing to other commitments. The Provincial Treasury and

## CHAPTER 3: FINANCIAL PERFORMANCE

Cogta engaged with the mayor, municipal manager and chief financial officer on 8 November 2010 after a briefing and hearing of the Public Accounts Committees to address the lack of responses to audit findings. This intervention did not have the desired result.

# CHAPTER 3: FINANCIAL PERFORMANCE

## **Adequacy and competence of personnel responsible for reporting**

84. The municipality is not making use of consultants to prepare their financial statements. Vacancies in key positions in the finance directorate and a general lack of staff, resulted in serious delays with the submission of information required for the audit.
85. This management report also report on insufficient audit evidence to substantiate that certain senior managers does in fact has the necessary skills and competence as is a requirement of section 82 and 56 of the Municipal Structures Act and the Municipal Systems Act.
86. In view of the deterioration of the audit opinion, it would seems that personnel responsible for reporting did not display the necessary competence one would require of personnel in senior positions. This is specifically worrisome if considering that in the previous year, the municipality had a qualified opinion based on only 5 matters.

## **Integrity and ethical behavior**

87. Problems identified with the auditing of related party transactions cause me to belief that management is not displaying the appropriate ethical behaviour that would enable us to have performed audit procedures appropriate for identifying ethical factors to consider. Problems identified with the qualifications of senior management also cast some doubt over the leadership capabilities.

## **Implementation of appropriate key controls (policies and procedures)**

88. In view of the reversing of gains made in previous years with regard to the audit opinion and notwithstanding management efforts to address the shortcomings identified in previous years, I am not of the opinion that any intervention was positive. The following were observed during the audit:
89. Management does not have documented policies and procedures in all instance to guide the operations of the municipality and as a result numerous instances of non compliance with the MFMA and MSA were noted as detailed under the reporting on compliance with laws and regulations section of this report. In addition management did not take corrective action on the following internal control deficiencies identified during our audit:

The Setsoto local municipality did not have documented and approved internal policies and procedures to address planning, implementation, monitoring and reporting processes and events pertaining to performance management and reporting.

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## FINANCIAL AND PERFORMANCE MANAGEMENT

### **Adequacy of systems preparation of the financial statements and the report on predetermined objectives**

90. (Ex.8) Section 62(1)(c)(i) of the MFMA states that the Accounting Officer of a municipality is responsible for managing the financial administration and must ensure that the municipality has maintained effective, efficient and transparent systems of financial and risk management and internal control. Furthermore, in terms of paragraph 8 of resolution 4 of the Public accounts committee of the Free State Legislature, vacant chief risk officers positions must be filled and these units must be capacitated by skilled staff to ensure that risk management are functioning effectively. Though the municipality has a risk management strategy and risk management committee, the structures to support the implementation and monitoring of the strategy is not in place and therefore the risk strategy is not implemented and monitored. The committee was not functional during the 2009/2010 financial year while no evidence exist that the municipality had done a risk assessment for the year under review.
91. The municipality did not have adequate resources to administer, monitor and report on information technology and communication which includes an IT steering committee that oversee the IT processes of the municipality.

Furthermore, the municipality does not have reliable information systems for recording and reporting on:

- Property, plant and equipment
- Inventory
- Unspent conditional grants
- Predetermined objectives

The impact of this lack of systems is that we have been unable to obtain sufficient appropriate audit evidence on which to base our audit opinion on these disclosures.

### **Accounting discipline**

92. Significant unreconciled accounts applicable on the unspent conditional grants were disclosed for which no sufficient, appropriate audit evidence existed and result in a modification of the audit report.

### **Budget process as well as measurement and achievement**

93. Several problems were identified with the budget of the current year. These includes the following:
- (a) The budget was not approved on time
  - (b) The adjustment budget was not submitted to the mayor/council
  - (c) The midyear budget assessment and performance assessment for the municipality was not done

(d) The budget implementation plan and service delivery plan (SDIP) were not presented to the mayor/council as per the requirements of the MFMA

**Availability of expected information (both financial and performance)**

94. Significant difficulties encountered during the audit include the following:

- Management took unreasonably long to replies to requests for information.
- Management replies to audit findings were below standard and had little or no impact on the resolving of audit findings. The impact of this is visible in the modification of the audit opinion.
- AGSA staff had to go through great lengths to obtain to obtain sufficient appropriate audit evidence. In those instances where they could not obtain such information, the errors were projected over the population or contract value and considered for the audit report.
- The unavailability of expected information. The report on performance information was to be submitted to the AGSA by 31 August 2010, this date was later changed to 15 September 2010. Regardless of our interventions on a weekly basis, at the time of the audit, this report was never submitted to audit.

95. As indicated in our engagement letter, we agreed that all information requested for purposes of the audit would be submitted within 3 working days of the request by the auditors. Despite this agreement, management did not supply the documentation requested in the following instances. Below is a summary of our requests with an indication on the timing of the replies

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INFORMATION REF	REQUEST DETAILS	DATE OF 1ST REQUEST	DUE DATE FOR INFORMATION	COMMENT
1	Governance Committees	4-Aug-10	10-Aug-10	Not received on due date, exception issued.
2	Internal Audit	4-Aug-10	10-Aug-10	Received on time
3	Contracts and agreements	4-Aug-10	10-Aug-10	Not received on due date, exception issued.
4	Employee Cost	16-Aug-10	20-Aug-10	Only received on 3 September 2010, two weeks after the due date.
5	Fraud considerations	16-Aug-10	20-Aug-10	Received on time
6	Conditional grants	17-Aug-10	23-Aug-10	Not received on due date, exception issued.
7	Fraud considerations	23-Aug-10	27-Aug-10	Received on time
8	General Ledger	26-Aug-10	30-Aug-10	Received two days late.
9	Businesses Processes and relevant controls on Other receivables from non-exchange transactions	8-Sep-10	10-Sep-10	Received and finalized 18 days late.
10	Excel AFS	8-Sep-10	13-Sep-10	Received 10 days late, delayed the whole team of 9 officials.
11	Assets - PY outstanding vouchers	8-Sep-10	13-Sep-10	Not received on due date, exception issued.
12	Journal	8-Sep-10	13-Sep-10	Information could not be obtained, see exception.
13	Journal	10-Sep-10	15-Sep-10	Received on time
14	Duties and responsibilities of all the personnel in the expenditure division	23-Sep-10	28-Sep-10	Received on time
15	Municipality Turn Around Strategy_ Trade Receivables and Other Debtors	14-Sep-10	17-Sep-10	Received and finalized 18 days late.
16	Stock Count 30 June 2010	21/09/2010	23/09/2010	Received and finalized 12 days late.
17	Declaration of interest	13/09/2010	16/09/2010	Not received after six weeks and exception raised.
18	Tender documents and payment vouchers	30/09/2010	5/10/2010	Received on time
19	Agreed upon procedures information	11/10/2010	13/10/2010	Received and finalized 28 days late.
20	PPE additions vouchers	11/10/2010	13/10/2010	Received on time
21	LED projects information	12/10/2010	14/10/2010	Not received on due date, exception issued.

INFORMATION REF	REQUEST DETAILS	DATE OF 1ST REQUEST	DUE DATE FOR INFORMATION	COMMENT
22	Employee Cost: Personal files	13/10/2010	15/10/2010	Received and finalized 6 days late.
23	Expenditure variances analysis	12/10/2010	14/10/2010	Received and finalized 13 days late.
24	Employee Cost variances analysis	13/10/2010	15/10/2010	Received and finalized 12 days late.
25	Expenditure variances analysis	13/10/2010	15/10/2010	Received and finalized 12 days late.
26	Solid waste disposal projects	13/10/2010	15/10/2010	Not received after three weeks, see exception raised.
27	Assets supporting documentation	14/10/2010	18/10/2010	Received, EX 75 resolved
28	Consumer application files (water and electricity)	15/10/2010	19/10/2010	Received and finalized 8 days late.
29	Receivables: Explanations on Analysis	19/10/2010	22/10/2010	Received and finalized 5 days late.
30	Employee cost: Leave reports, valuations, etc	21/10/2010	25/10/2010	Received and finalized 2 days late.
31	Samples: VAT and Creditors	21/10/2010	24/10/2010	Received on time
32	Samples: Bulk purchases	22/10/2010	27/10/2010	Received on time
33	Employee cost; Personal file for the deceased employees	22/10/2010	27/10/2010	Received on time
34	Outstanding documentation on all components	22/10/2010	27/10/2010	Received on time
35	List of contingent liabilities	22/10/2010	27/10/2010	Not received due to a lack of information, exception raised.
36	General expenses: List of payment vouchers	22/10/2010	27/10/2010	Received on time
37	Other income supporting documentation departmental income	22/10/2010	27/10/2010	Not received on due date, exception issued.
38	Creditors - Large & Unusual Items	27/10/2010	29/10/2010	Not received on due date, exception 82 issued.

Seen from the above, a total of 38 formal requests were issued of which on 13 or 34% of it was replied to on time.

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With regard to the replies our communication of audit findings, the situation is not better when considering the analysis below:

EXCEPTION NO	DETAILS	DATE ISSUED	DATE OF RESPONSE	RESPONSE (Y/N)
1	Governance Committees: No Oversight Committee	17/09/2010	12/10/2010	Yes
2	Governance Committees: No Functional Performance Audit Committee	17/09/2010	12/10/2010	Yes
3	Structure of entity and organisation: Information was not submitted for audit purposes	17/09/2010	12/10/2010	Yes
4	Governance Committees: Audit Committee not meeting at least four times a year as prescribed.	17/09/2010	21/10/2010	Yes
5	AoPI: Annual Report of 2008/09 not tabled in council and not made public	17/09/2010	12/10/2010	Yes
6	AoPI: Timely revision of annual budget not done - non-compliance with section 72 of MFMA	17/09/2010	Not yet	No
7	AoPI: Monitoring of the IDP not done quarterly	17/09/2010	12/10/2010	Yes
8	Governance Committees: No operational risk committee and IT steering committee	17/09/2010	12/10/2010	Yes
9	AoPI: Performance monitoring and evaluation not done for operational staff	17/09/2010	12/10/2010	Yes
10	Internal Control: No Business Continuity Plan in place	17/09/2010	12/10/2010	Yes
11	Audit committee: Committee did not effectively discharge its mandate	17/09/2010	21/10/2010	Yes
12	Contracts and agreements: information outstanding	17/09/2010	Not yet	No
13	Audit Committee: No sufficient liaison with the council, management, internal and external auditors	17/09/2010	21/10/2010	Yes
14	Operating expenditure: Bid award certificates not submitted monthly to the national treasury	17/09/2010	12-Nov-10	Yes
15	Prepaid electricity reconciliations not done	17/09/2010	1-Nov-10	Yes
16	AoPI: Timely approval of the 2009/10 annual budget by council	17/09/2010	Not yet	No
17	Receivables: Doubtful Debts still not handed over	17/09/2010	1-Nov-10	Yes
18	Internal Control: Asset count results not reconciled to asset register	17/09/2010	1-Nov-10	Yes
19	Employee Cost: Qualifications of the CFO	17/09/2010	12-Nov-10	Yes
20	AoPI: Proof of submission of SDBIP to the mayor	17/09/2010	12/10/2010	Yes
21	Internal Control: Non-compliance with s30 of DoRA	17/09/2010	Not yet	No
22	Employee Cost: Allowance overpaid to councilors still not recovered	17/09/2010	Not yet	No
23	Audit Committee: No review performed by Council	17/09/2010	12-Nov-10	Yes
24	Borrowings: Long-term incurred without council approval	22/09/2010	12-Nov-10	Yes
25	Inventory: No approved policy and procedures	22/09/2010	12/10/2010	Yes

EXCEPTION NO	DETAILS	DATE ISSUED	DATE OF RESPONSE	RESPONSE (Y/N)
26	Inventory: Differences found during stocktaking	22/09/2010	21/10/2010	Yes
27	Inventory: Stores item not included in the stores trial balance in Senekal	22/09/2010	12/10/2010	Yes
28	Inventory: Internal control deficiencies found in FXB and Senekal	22/09/2010	12-Nov-10	Yes
29	Unspent conditional grants and receipts: Municipality failed to submit monthly budgeted statements	17/09/2010	Not yet	No
30	Housing Development Fund: Balance disclosed in F/S not supported	17/09/2010	Not yet	No
31	Team Mate skipped 31, teammate error.	Team Mate skipped 31, teammate error.	Team Mate skipped 31, teammate error.	Team Mate skipped 31, teammate error.
32	Internal control-Declaration of interest not done by SCM officials	22/09/2010	Not yet	No
33	Financial lease agreements: SCM procedures not followed.	22/09/2010	12-Nov-10	Yes
34	Council minutes: non-adherence to Standing rules and orders	22/09/2010	12-Nov-10	Yes
35	AoPI: Mid-Year Budget and Performance Assessment not presented to Mayor, National and Provincial Treasuries	22/09/2010	12/10/2010	Yes
36	AoPI: Performance Report not submitted timely for audit purposes	22/09/2010	12/10/2010	Yes
37	AoPI: 2009/10 Adjustment Budget not prepared in prescribed format and not approved by council	22/09/2010	12-Nov-10	Yes
38	Employee Costs: Retention policy	22/09/2010	Not yet	No
39	Governance: Management does not respond or follow-up on internal audit findings	22/09/2010	Not yet	No
40	Receivables_ No background checks or credit vetting checks performed	01/10/2010	Not yet	No
41	Receivables: Responsibility for capturing interest rates on FINSTEL	01/10/2010	12-Nov-10	Yes
42	General expenses: overstatement of general expenses in note 31 to AFS	07/10/2010	12-Nov-10	Yes
43	Receivables: Contributions to doubtful debt policy not obtained	01/10/2010	Not yet	No
44	Receivables: Controls over services to indigent consumers lacking	01/10/2010	12-Nov-10	Yes
45	Property rates: Valuation roll reconciliation	01/10/2010	Not yet	No
46	Cash and Cash Equivalent: on-compliance with S 70(2) of MFMA	01/10/2010	29-Oct-10	Yes
47	Service Charges: Approved Tariff Policy could not be submitted for audit	01/10/2010	29-Oct-10	Yes
48	EXPENDITURE MANAGEMENT:HIGH VACANCY RATE	01/10/2010	29-Oct-10	Yes
49	Unspent Conditional Grants: No register of grants received and unspent portion not cash-backed	13/10/2010	29-Oct-10	Yes
50	Investments: No approval and no quotations for funds invested on Money Market	13/10/2010	29-Oct-10	Yes
51	Going concern	13/10/2010	Not yet	No
52	LED Projects: Deed of trust for the Meqheleng Peach Project	13/10/2010	Not yet	No
53	LED projects: Meqheleng Peach Project: Financial Statements	13/10/2010	29-Oct-10	Yes

EXCEPTION NO	DETAILS	DATE ISSUED	DATE OF RESPONSE	RESPONSE (Y/N)
54	Unspent Conditional Grants: Inconsistencies on Unspent Conditional Grants	21/10/2010	Not yet	No
55	Resolved	Resolved	Resolved	Resolved
56	Procurement: Insufficient information provided.	3-Nov-10	10-Nov-10	Yes
57	Property, Plant and Equipment: Differences between fixed asset register and financial statements	21/10/2010	29-Oct-10	Yes
58	Remuneration of Public Bearers: Councillors did not pay UIF as per the Act	27/10/2010	10-Nov-10	Yes
59	Remuneration not paid according to Public Bearer	16/10/2010	Not yet	No
60	PPE: Asset register information is insufficient	27/10/2010	10-Nov-10	Yes
61	PPE: Property on the valuation roll could not be traced to the asset register	27/10/2010	12-Nov-10	Yes
62	LED project: Peach project (Ficksburg) - fruitless and wasteful expenditure	3-Nov-10	Not yet	No
63	LED projects: Documents not received	3-Nov-10	Not yet	No
64	LED projects: Textile project (Senekal)	2-Nov-10	Not yet	No
65	LED projects: Nursery project (Senekal)	3-Nov-10	Not yet	No
66	PPE: Redundant and absolute assets	3-Nov-10	10-Nov-10	Yes
67	LED projects: Documents not received	2-Nov-10	Not yet	No
68	Creditors: Understatement of Creditors listing (Accruals) and creditors not paid within 30 days	2-Nov-10	Not yet	No
69	Team Mate skipped 69, teammate error.	Team Mate skipped 69, teammate error.	Team Mate skipped 69, teammate error.	Team Mate skipped 69, teammate error.
70	Employee related costs: CFO remuneration increase without approval	16/11/2010	Withdrawn	Withdrawn
70	PPE: Redundant and absolute assets	3-Nov-10	10-Nov-10	Yes
71	VAT: No evidence of authorization of journals	3-Nov-10	Not yet	No
72	Employee related costs: Overpayment to IDP Manager's dismissal	16/11/2010	Withdrawn	Withdrawn
72	Employee related cost: Shortcomings identified on employee costs	10-Nov-10	Not yet	No
73	Inventory on hand at year-end not correctly disclosed	Cancelled	Cancelled	Cancelled
74	PPE - MIG grants by the Thabo Mofutsanyana District municipality	2-Nov-10	No	No
75	PPE - Supporting documentation for additions not received	2-Nov-10	12-Nov-10	Yes
76	Resolved	Resolved	Resolved	Resolved
77	VAT - Errors on PPE additions	9-Nov-10	Not yet	No
78	PPE - Limitations to PPE additions supporting documentation	9-Nov-10	Not yet	No
79	Revenue Service charges: Meter reading books not provided	2-Nov-10	10-Nov-10	Yes
80	Creditors: Accounts payable not reconciled to supplier statements	3-Nov-10	12-Nov-10	Yes
81	Procurement: List of awards not in place	16/11/2010	Cancelled	No

EXCEPTION NO	DETAILS	DATE ISSUED	DATE OF RESPONSE	RESPONSE (Y/N)
82	Creditors: No supporting documentation or explanations for creditors large and unusual balances	3-Nov-10	12-Nov-10	Yes
83	Finance lease liabilities - Difference between register and bank statements	10-Nov-10	Not yet	No
84	Receipts - Manual Receipt books not submitted for audit purposes	9-Nov-10	12-Nov-10	Yes
84	Receivable: Documents not provided for audit purposes	9-Nov-10	Not yet	No
85	Expenditure: Request for order books and journals do not submitted for audit for audit	10-Nov-10	12-Nov-10	Yes
85	Revenue Service charges: Under collection of revenue	9-Nov-10	Not yet	No
86	Finance lease liabilities - Liability not included in the financial records	10-Nov-10	12-Nov-10	Yes
87	Finance lease liabilities - new assets could not be traced	16-Nov-10	Not yet	No
88	Compliance: Declaration of interests by councillors not done	9-Nov-10	12-Nov-10	Yes
89	Employee cost: Municipal Manager not registered with retirement fund and medical aid scheme	10-Nov-10	Not yet	No
90	Inventory: Written management representations not done	10-Nov-10	12-Nov-10	Yes
91	Employee related cost: Copies of the certified copies	10-Nov-10	Not yet	No
92	Delays during the audit	11-Nov-10	12-Nov-10	Yes
93	AuP: Issues regarding expenditure incurred	9-Nov-10	Not yet	No
94	Revenue Service charges: No supporting documentations	10-Nov-10	Not yet	No
95	Receivables: Indigents applicants did not attach proof of residence	9-Nov-10	Not yet	No
96	Receivables: Journals not authorized	10-Nov-10	Not yet	No
97	Creditors: Creditors balance not verified	9-Nov-10	Not yet	No
98	AuP: Determining the total amount of funds	9-Nov-10	Not yet	No
99	Wasteful expenditure: Raw water in Marquard	9-Nov-10	Not yet	No
100	AuP: Payments made not in line with progress on project	16/11/2010	Not yet	No
101	AuP: Liability/No liability at year end	16/11/2010	Not yet	No
102	Employee related cost: Unemployment Insurance Fund not paid according to the UIF Act	10-Nov-10	Not yet	No
103	PPE: Fruitless and wasteful expenditure w.r.t. new additions	10-Nov-10	Not yet	No
104	PPE: Operating expenses incorrectly capitalized	9-Nov-10	Not yet	No
105	Employee related costs: Salary payments are not stopped upon the death of an employee	16/11/2010	Cancelled	No
106	Capital commitments: Difference between register and disclosure note	10-Nov-10	Not yet	No
107	PPE: Existence of assets could not be verified	10-Nov-10	Not yet	No
108	PPE: Assets identified that are not properly maintained	10-Nov-10	Not yet	No
109	Cash and Cash equivalents - Amounts could not traced to receipt books	10-Nov-10	Not yet	No

EXCEPTION NO	DETAILS	DATE ISSUED	DATE OF RESPONSE	RESPONSE (Y/N)
110	Capital commitments: Contracts not obtained for audit purposes	10-Nov-10	Not yet	No
111	Finance lease liabilities: Leases incorrectly classified as operating leases	10-Nov-10	Not yet	No
112	Receivables: No discontinuance of services for consumers	10-Nov-10	Not yet	No
113	Receivables: Doubtful debts for 2009/2010 still not handed over.	10-Nov-10	Not yet	No
114	Employee related cost: Municipal Manager's qualification	10-Nov-10	Not yet	No
115	Employee related cost: Employees not verified	16/11/2010	Not yet	No
116	SCM: Computer equipment procured at inflated prices	10-Nov-10	Not yet	No
117	Revenue Service Charges: Overstatement of revenue from water services	10-Nov-10	Not yet	No
118	Borrowings: Differences between DBSA external confirmation and financial statements	10-Nov-10	Not yet	No
119	Employee related cost: No record file on peach project workers	16/11/2010	Cancelled	No
120	Employee related costs: Payroll certificate cannot be scrutinized for completeness	16/11/2010	Not yet	No
121	Receivables: Provision for bad debts over provided	16/11/2010	Not yet	No
122	VAT: Vat not accounted for when deposits are used to set off outstanding debt	16/11/2010	Not yet	No
123	General expenses: payment vouchers not submitted for audit purpose	16/11/2010	Not yet	No
124	General expenses: Interest charged on overdue accounts	16/11/2010	Not yet	No
125	SCM: Non-compliance during acquisition of assets	16/11/2010	Not yet	No
126	Cash and cash equivalents: Payment vouchers could not be trace to files.	16/11/2010	Not yet	No
127	Procurement: Non compliance with internal SCM policy	16/11/2010	Not yet	No
128	General expenses: Expenditure overstated with incorrect calculation of VAT	16/11/2010	Not yet	No
129	Employee cost: Vacant posts in the cashiers - Ficksburg	16/11/2010	Not yet	No
134	Other receivables: journals not provided for audit purposes			No
135	Employee Related costs: Appointment contract not signed by DCS/MM			No
136	Employee related costs: leave not approved and captured on time			No
137	Property rates: differences on the levy			No
138	PPE: council resolution not considering section 19 of the MFMA			No
139	PPE: laptop computers alienated without considering section 14 of MFMA			No
140	Receivables: amounts not recorded in the correct period			No
141	ERC: notice of termination not given within timeframe			No
142	ERC: staff establishment not approved by MM			No
143	ERC: Human Resource not effective			No
144	ERC: overtime paid is more than 30% of the basic salary			No

EXCEPTION NO	DETAILS	DATE ISSUED	DATE OF RESPONSE	RESPONSE (Y/N)
145	Operating expenditure: Total expenditure incurred in excess of approved budget			No

Based on the above analysis, the final % replies to our findings were 39%

**Late submission of financial statements and report on predetermined objectives**

96. The Setsoto municipality only submitted its financial statements for auditing on 31 August 2010, as required by the MFMA but not the report on pre-determined objectives. The reason for the late submission was the inability of management to prepare the report on pre-determined objectives.
97. The annual report for the 2009/10 and 2008/09 financial years were not submitted notwithstanding several formal and informal interventions. The result is that the municipality did not report on performance objectives in 2009/10 year that was audited.

**Related party transactions**

98. Difficulties were experienced with the auditing of disclosures of related party transactions. Management were unable provide the required information that would enable me to perform the procedures I deemed necessary. I therefore conclude that the municipality has not implemented controls to:
  - identify, account for and disclose related party relationships and transactions in accordance with the SA Standards of GRAP.
  - authorise and approve significant transactions and arrangements with related parties.

# CHAPTER 3: FINANCIAL PERFORMANCE

## GOVERNANCE

### Risk identification and management

99. Legislation requires that a risk assessment be conducted on a regular basis and that a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(c)(i) of the MFMA. The municipality had a strategy in place but not a Risk Steering Committee to oversee the implementation and monitoring of the strategy. Through our evaluation of audit findings, there is a trend that management processes are lacking with regard to identification and management of risks affecting the municipality.

### Fraud prevention, detection and response

100. Procedures are in place to identify misappropriation of assets. During the year several instances of misappropriation of assets were investigated and resolved. These cases identified were theft cases and not fraud instances. However, in view of the many reported instances of non compliance with SCM policy, non compliance with the MFMA regarding procedures for long term loans, the spending on capital expenditure without a budget, the limitations were experienced while trying to audit the business disclosures for related parties, there is uncertainty as to whether the systems and procedures are adequately monitored and appropriate actions taken.

101. Irregular expenditure identified in the previous year has still not been recovered and no indicated are that investigations were done into the liability of this unwanted expenditure.

### Internal audit

102. The internal audit work was assessed and whereas we initially planned to rely on the work, our re-performance of their work revealed inconsistencies which did not enable us to make further use of it. The management failure to resolve internal audit findings is a matter that requires serious consideration if there is a possibility that internal audit can discharge their continuous assessment role adequately.

### Audit committee

103. (Ex.4) Section 166(4)(b) of the MFMA prescribes that: "The audit committee must meet as often as is required to perform its functions, but at least four times a year". Contrary to section 166(4)(b) of the Municipal Finance Management Act, No. 56 of 2003 it was observed during the audit of Governance Committees that the audit committee convened only once which was on 10 May 2010.

104. (Ex.11) Contrary to the requirements of section 166(2) of the MFMA, the committee did not discharge its mandate.

105. Contrary to the requirements of Section 166(3)(b) of the MFMA, the audit committee did not effectively and sufficiently liaise with the persons as required by section 166(3)(b) the MFMA and their mandate throughout the year.

106. (Ex.23) The King II Report on corporate governance recommends that the council needs to assess the effectiveness of the audit committee on a periodic basis. The effectiveness of the audit committee was not reviewed by the Council during the year under review.



# CHAPTER 3: FINANCIAL PERFORMANCE

## REMEDIAL ACTION TAKEN ON AUDIT OUTCOMES OF PRIOR YEARS

### **Actions taken by management and those charged with governance to address matters previously reported**

107. Actions plans were drawn up and implemented with no positive effect on the audit of the current financial year. The following material issues should be attended to as soon as possible:

- (a) Unspent conditional grants should be reconciled and resolved
- (b) The assets register should be updated with relevant information that would enable any person to trace assets to and from the assets register to their location.
- (c) The inventory procedures should be updated and contained in a comprehensive policy that will assist and clear any unresolved findings on the inventory balance.

### **Progress on undertakings given by the legislature, portfolio committees and other oversight bodies to address matters previously reported**

108. During the November sitting of the Public Accounts Committee it was resolved that the accounting officer was not in position to reply to questions of the committee and for that reason the sitting was adjourned until another date still to be determined.

# CHAPTER 3: FINANCIAL PERFORMANCE

## Status of SCOPA/oversight resolutions

109. Below is our evaluation of the status of the implementation of the resolutions of the Public Accounts Committee:

RESOLUTION NO	DESCRIPTION	PROGRESS	STATUS
4/2010	Accounting officers of local municipalities, district municipalities and municipal entities must compile a comprehensive action plan to address all matters reported in their latest audit report.	Action plan compiled and implemented but the results were not positive. Inventory, PPE, unspent conditional grants were again reported in this audit report	Not resolved
4/2010	Accounting officers must conclude on the correctness of allowances paid to councillors / board members during the past financial year to determine whether the allowances were paid according to prescripts.	This same issue was reported on in the current year and the findings of the previous year has not been resolved	Not resolved
4/2010	Accounting officers must conclude on all unauthorised, irregular, fruitless and wasteful expenditure reflected on the 2008-09 annual	No actions were taken to have the unauthorised and irregular, fruitless and wasteful expenditure cleared in the current year. Similar instances were again reported on in the current year	Not resolved
4/2010	All contracts with debt collecting agencies must be properly investigated. All overpayments must be recovered.	In the previous year the appointment of a legal firm was not put on a competitive bidding footing with the result that payment made to the firm were considered irregular. In the action plan drafted by the municipality, it is proposed that the council condone this irregular expenditure. No sufficient appropriate audit evidence exist that this issue have been resolved	Not resolved
4/2010	The Committee is concerned that no value for money is received and no transfer of skills take place with the appointment of consultants	The municipality did not make use of consultants	Resolved
4/2010	All contracts with service providers and consultants must be investigated to determine a possible conflict of interest.	No evidence that this issue was resolved	Not resolved
4/2010	Accounting officers must ensure that the treasury and budget office is sufficiently capacitated by skilled officials to ensure that financial functions are properly executed	Through our audit and consultations with the municipal manager and chief finance officer, it was established that the treasury and budget office was still understaffed. Funding is presented as a reason why this resolution was not implemented	Not resolved
4/2010	Vacant internal audit and chief risk officer's positions must be filled and these units must be capacitated by skilled staff to ensure that risk management and internal audit units are functioning effectively.	The internal audit was occupied. The Chief Risk Officer is not on the organogram of the municipality and funding is not available to fill this position	Resolved  Not resolved

RESOLUTION NO	DESCRIPTION	PROGRESS	STATUS
4/2010	Accounting officers must ensure that audit committees is established and capacitated at all municipalities.	The audit committee was not discharging its mandate during the year.	Not resolved
4/2010	Oversight over annual reports must be dealt with in accordance with MFMA circular No. 32, dated 15 March 2006.	No oversight committee was established to interrogate and deal with the audit results of the 2008/09 audit report. No such a committee was also operational in 2009/10	Not resolved
4/2010	Accounting officers must ensure that Municipal Infrastructure Grants are utilised for the purpose it is intended for	The municipality did not spend their monies and the Treasury withheld R17 million during December 2009. The issue with unspent conditional grants is reported because no supporting documentation exists to have the account reconciled.	Not resolved
4/2010	Accounting authorities must conduct viability studies on the municipal entities.	No municipal entities existed during 2009/10 However, towards the end of the 2009/10 financial year, the Setsoto Integrated Enterprise was established and has been operational in the next financial year. Evidence that this resolution was considered will be followed up in the next audit	Not resolved
31/2007	Accounting officers of district and local municipalities must ensure that: <ul style="list-style-type: none"> <li>• a proper transfer of information and documentation is done to all new appointees and existing staff</li> <li>• a retention policy is implemented to ensure that the necessary knowledge remains in the municipality.</li> </ul>	This is an outstanding issue that is still unresolved at the end of the 2009/10 financial year	Not resolved

## **MATTERS THAT MAY POTENTIALLY IMPACT THE AUDITOR'S REPORT IN THE COMING YEAR**

### **Accounting and compliance matters**

110. Towards the end of the 2010/11 financial year, the application of GRAP 17: Property, plant and equipment will become fully implementable. Unless the municipality do not take the relief provided in directive 4 of March 2009, the audit report will be modified and disclaimed on this class of transactions mainly. This is significant and should be addressed while there is time available.

### **Susceptibility of assets or liabilities to loss or fraud**

111. The municipality does not undertake regular physical counts of capital assets and or inventory and inventory is not adequately protected from theft and damage. This could lead to material loss to the organisation in the future.

### **Subsequent events**

112. The local government elections will be conducted sometime in 2011. There is uncertainty that those councilors who is owing the municipality money may not be re-elected which could increased the bad debt to be written off if the monies cannot be recovered. The accounting officer must ensure that all monies owed by councillors are repaid to before end of their current term of office.

### **RATINGS OF DETAILED AUDIT FINDINGS**

113. For the purposes of this report, the detailed audit findings included in annexures A to C have been classified as follows:
- Matters to be included in the auditor's report.  
*These matters should be addressed as a matter of urgency.*
  - Other important matters – deficiencies that could adversely affect the entity's ability to initiate, record, process and report financial data consistent with the assertions of management on the financial statements and in accordance with the applicable basis of accounting. Unacceptable risk that errors and irregularities may occur that will not be prevented or detected by the internal controls in good time.  
*These matters should be addressed within the next 12 months.*
  - Administrative matters – non-material non-compliance with applicable legislation, or misstatements in the financial statements that are unlikely to affect the decisions of a user and do not affect the financial statements as a whole, or opportunities for improvement, or other matters of governance interest.  
*These matters should be addressed at the discretion of the entity.*

114. Failure to address matters reported in a particular category may result in the matter being rated as more significant in the next financial year.

Yours sincerely

Andries Theron  
Senior Manager: Free State

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**Distribution:**  
Municipal Manager  
CFO  
Audit committee  
Head of internal audit

# CHAPTER 3: FINANCIAL PERFORMANCE

## SUMMARY OF DETAILED AUDIT FINDINGS – AUDIT REPORT MATTERS

Page. no.	Finding	Classification					Rating			In which years was it reported		
		Financial statements	Predetermined objectives	Compliance	Internal control	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2008/09	2007/08	2006/07
<b>Appropriated and surrendered funds</b>												
	AoPI: 2009/10 annual budget not timely approved by council (EX.16)		✓				✓					
	Internal Control: Non-compliance with section 30 of DoRA (EX.21)				✓		✓			✓		
	Unspent conditional grants: Municipality failed to submit monthly budgeted statements (EX.29)			✓			✓			✓		
	Compliance: No midyear performance review of the municipality and reporting to the mayor (EX.6)			✓			✓				✓	
<b>Borrowings &amp; long-term loans</b>												
	Finance lease liabilities: Leases incorrectly classified as operating leases (EX.112)	✓					✓					
	SCM: Finance lease assets procured at inflated prices (EX.117)	✓					✓				✓	
	Borrowings: Long-term loan incurred without council approval (EX.24)				✓		✓				✓	
	SCM: Procedures not followed for finance lease liabilities (EX.33)	✓					✓				✓	
	Finance lease liabilities: New assets could not be traced (EX.89)				✓		✓				✓	

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Cash and cash equivalents											
	Cash and Cash equivalents - Receipt report not submitted (EX.110)				✓		✓			✓	
	Cash and cash equivalents: Payment vouchers could not be trace to files (EX.128)	✓					✓				
	Cash and Cash Equivalents: Non-compliance with S 70(2) of MFMA (EX.46)			✓			✓			✓	
Commitments											
	Capital commitments: Contracts not obtained for audit purposes (EX.111)	✓					✓			✓	
Employee costs											
	Employee related cost: Municipal Manager's qualification (EX.115)				✓		✓			✓	
	Employee related cost: No record file for peach project workers (EX.120)				✓		✓			✓	✓
	Employee Cost: Qualifications of the CFO (EX.19)				✓		✓			✓	
	Employee Cost: Allowances overpaid to councilors still not recovered (EX.22)				✓		✓			✓	
	Remuneration of councillors not paid according to Public Office Bearers Act (EX.59)			✓			✓				✓
	Employee related cost: Qualifications of the Director Corporate Services not available on personnel file (EX.91)				✓		✓				
Governance matters											
	Governance Committees: No Oversight Committee (EX.1)			✓			✓			✓	
	Audit committee: Committee did not effectively discharge its mandate (EX.11)			✓			✓			✓	
	Audit Committee: No sufficient liaison with the council, management, internal and external auditors (EX.13)			✓			✓			✓	
	Audit Committee: Effectiveness not reviewed by Council (EX.23)				✓		✓				
	Council minutes: Non-adherence to Standing rules and orders			✓			✓			✓	

	<b>(EX.34)</b>											
	Governance Committees: Audit Committee not meeting at least four times a year as prescribed <b>(EX.4)</b>			✓			✓					✓
	Governance: Management does not respond or follow-up on internal audit findings <b>(EX.39)</b>			✓			✓				✓	
<b>Financial statements</b>												
	Going concern factors <b>(EX.51)</b>	✓					✓				✓	
<b>Immovable assets</b>												
	SCM: Fruitless and wasteful expenditure on new additions <b>(EX.103)</b>	✓					✓					
	SCM: Non-compliance during acquisition of assets <b>(EX.127)</b>	✓					✓					
	LED Projects: Deed of trust for the Meqheleng Peach Project <b>(EX.52)</b>			✓			✓			✓	✓	✓
	LED projects: Meqheleng Peach Project: Trust deed duties not performed <b>(EX.53)</b>				✓		✓			✓	✓	✓
	PPE: Property on the valuation roll could not be traced to the asset register <b>(EX.61)</b>				✓		✓			✓	✓	
	LED projects: Nursery project (Ficksburg) <b>(EX.65)</b>				✓		✓			✓	✓	✓
	PPE: MIG grants by the Thabo Mofutsanyana District municipality, expenditure not capitalised <b>(EX.74)</b>	✓					✓					
	Wasteful expenditure: Inequality work for project Raw water in Marquard <b>(EX.99)</b>	✓					✓			✓		
<b>Inventory</b>												
	Inventory: No approved policy and procedures <b>(EX.25)</b>			✓			✓				✓	
	Inventory: Differences found during stocktaking <b>(EX.26)</b>				✓		✓			✓		
	Inventory: Stores item not included in the stores trial balance in Senekal <b>(EX.27)</b>				✓		✓				✓	
	Inventory: Internal control deficiencies found in Ficksburg and Senekal <b>(EX.28)</b>				✓		✓				✓	
<b>Movable assets</b>												
	PPE: Existence of assets could not be verified <b>(EX.108)</b>				✓		✓			✓	✓	✓

	PPE: Assets identified that are not properly maintained (EX.109)			✓			✓		✓		
	Internal Control: Asset count not done and reconciled to asset register (EX.18)				✓		✓		✓	✓	✓
	PPE: Asset register information is insufficient (EX.60)				✓		✓		✓		
	LED projects: Textile project (Senekal) (EX.64)				✓		✓		✓	✓	✓
	PPE: Redundant and absolute assets not traced to location or assets register (EX.66)			✓			✓		✓		
	PPE: Supporting documentation for 2008/09 additions not obtained (EX.67)				✓		✓		✓		
	PPE: Limitations to PPE additions supporting documentation (EX.78)	✓					✓				
<b>Operating expenditure</b>											
	PPE: Legal Fees incorrectly capitalised to assets (EX.104)	✓					✓		✓		
	Contracts and agreements: Limitation on scope of audit (EX.12)				✓		✓				✓
	General expenses: payment vouchers not submitted for audit purpose (EX.125)	✓					✓			✓	
	General expenses: Expenditure overstated with incorrect calculation of VAT (EX.131)	✓					✓				
	SCM: Bid award certificates not submitted monthly to the National Treasury (EX.14)				✓		✓			✓	
	SCM: Declaration of interest not done by SCM officials (EX.32)			✓			✓			✓	
	Procurement: Insufficient information provided (EX.56)			✓			✓		✓		
	LED projects: Peach project (Ficksburg) - fruitless and wasteful expenditure incurred (EX.62)	✓					✓		✓	✓	✓
	LED projects: Documents not received (EX.63)				✓		✓		✓	✓	✓
	VAT: Incorrectly claimed on PPE acquisitions (EX.77)	✓					✓				
	Unauthorised Expenditure: Total expenditure incurred in excess of approved budget (Ex.145)	✓					✓				

Payables											
	Creditors: No explanations for creditors large and unusual balances (incorrect allocations) (EX.82)				✓		✓			✓	
Performance information											
	Governance Committees: Dysfunctional performance audit committee (EX.2)			✓			✓				
	AoPI: Performance Report not submitted timely for audit purposes (EX.36)		✓				✓			✓	
	AoPI: Adjustment Budget (2009/10) not prepared in prescribed format and not approved by council (EX.37)		✓				✓			✓	
	AoPI: Annual Report of 2008/09 not tabled in council (EX.5)		✓				✓			✓	
	AoPI: Monitoring of the IDP not done (EX.7)		✓				✓			✓	
	AoPI: Performance monitoring and evaluation not done for operational staff (EX.9)		✓				✓			✓	
Receivables											
	Wasteful Expenditure: Delays during the audit (EX.124)			✓			✓			✓	
	Receivables: Doubtful Debts still not handed over (EX.17)				✓		✓			✓	
	Unspent Conditional Grants: No register of grants received and unspent portion not cash-backed (EX.49)	✓					✓			✓	
	Receivable: Journals and indigent application forms not submitted to audit (EX.84)				✓		✓			✓	
Related parties											
	Compliance: Declaration of interests by councillors not done (EX.98)			✓			✓			✓	

# CHAPTER 3: FINANCIAL PERFORMANCE

## ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT

### Appropriated and surrendered funds

#### 1. Compliance: 2009/10 annual budget not timely approved by council (EX.16)

##### Audit finding

##### Requirement/Limitation:

In terms of section 24(1) of the (MFMA), the municipal council must at least 30 days before the start of the budget year consider approval of the annual budget.

##### Nature:

Contrary to the requirements of section 24(1) of the MFMA, the municipal council did not consider approval of the annual budget at least 30 days before the start of the budget year since the approval of the budget was only done by the Council on 4 June 2009.

##### Cause:

The contravention of section 24(1) of the MFMA is a failure on the part of the municipality to observe the specified time frame within which the council must have considered approval of the 2009/10 annual budget.

##### Impact:

The reporting responsibilities as required by the MFMA, have not been adhered to.

##### Internal control deficiency

Financial and performance management - Pertinent information is not identified and captured in a form and time frame to support financial and performance reporting.

##### Recommendation

The municipality must take steps to ensure that the annual budget of the municipality is prepared timely so that it can be tabled in council in time such that it will be approved at least 30 days before the start of the budget year in accordance with section 24(1) of the (MFMA).

##### Management response

##### Auditor's conclusion

## **2. Internal Control: Non-compliance with section 30 of DoRA (EX.21)**

### **Audit finding**

#### **Requirement/Limitation**

Section 42(1)(a) of the Division of Revenue Act, 2009 (Act No. 12 of 2009)(DoRA) prescribes that in addition to the requirements of the MFMA, the accounting officer of a category C municipality must, no later than 14 April 2009, submit to the National Treasury the budget, as tabled in accordance with section 16 of the MFMA, for the 2009/10 municipal financial year, and the two following municipal financial years.

#### **Nature:**

Contrary to the requirements of section 42(1)(a) of the DORA the accounting officer did not submit the budget by the prescribed date because the budget for 2009/10 was only approved on 4 June 2009 by the Council.

#### **Cause:**

This contravention of DoRA is caused by the failure to observe the specified time frames within which the municipality must have adhered to for the approval of the 2009/10 annual budget.

#### **Impact:**

Non-compliance with section 42(1)(a) of the DoRA.

### **Internal control deficiency**

Oversight responsibility - The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

### **Recommendation**

Management must ensure that the budget is submitted timely to the relevant treasury in accordance with the requirements of the DoRA.

### **Management response**

### **Auditor's conclusion**

### **3. Unspent conditional grants: Municipality failed to submit monthly budgeted statements (EX.29)**

#### **Audit finding**

##### **Requirement/Limitation:**

According to section 71 the accounting officer of a municipality must by no later than 10 working days after the end of each month submit to the mayor of the municipality and the relevant provincial treasury a statement in the prescribed format on the state of the municipality's budget reflecting the following particulars for that month and for the financial year up to the end of that month:

- (a) actual revenue, per revenue source;(b) actual borrowings; (c) actual expenditure, per vote; (d) actual capital expenditure, per vote; (e) the amount of any allocations received;
- (f) actual expenditure on those allocations, excluding expenditure on—
  - (i) its share of the local government equitable share; and
  - (ii) allocations exempted by the annual Division of Revenue Act from compliance with this paragraph.

(4) The statement to the provincial treasury must be in the format of a signed document and in electronic format.

##### **Nature:**

Contrary to section 71, the municipality has not submitted electronic returns and did not submit signed returns on their Conditional Grant spending for the period ending 30 June 2010.

According to a letter from the National Treasury dated 30 August 2010 the names of the provincial treasuries and municipalities are listed that have failed to conform to the legislative requirements outlined by Section 71 for the reporting period ending 30 June 2010 (fourth quarter).

Setsotho local municipality is listed as one that did not submit electronic returns on their conditional grant spending for the period ending 30 June 2010.

##### **Cause:**

The monitoring and review of spending of conditional grants are not adequate which leads to the failure by the municipality to submit the required documents to the Treasury.

##### **Impact:**

Monies may be withheld by the Treasury which could lead to cash flow shortages and collapse of projects depending on that money.

#### **Internal control deficiency**

Leadership: Oversight responsibility - The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

#### **Recommendation**

The accounting officer should submit appropriate and sufficient audit evidence that these reports have since been submitted and that the reporting for 2010/11 is up to date.

#### **Management response**

#### **Auditor's conclusion**

#### **4. Compliance: No midyear performance review of the municipality and reporting to the mayor (EX.6)**

##### **Audit finding**

###### **Requirement/Limitation:**

The accounting officer of a municipality must by 25 January of each year assess the performance of the municipality for the first half of the financial year and report on such an assessment to the mayor of the municipality, the National Treasury and the relevant Provincial Treasury in terms of section 72(1)(a) of the MFMA.

###### **Nature:**

Contrary to the requirements of section 72(1)(a) of the MFMA, the municipal manager did not:

- (a) by 25 January of each year assessed the performance of the municipality for the first half of the financial year and
- (b) did not submit a report on such an assessment to the mayor of the municipality, the National Treasury and the relevant Provincial Treasury.

The authenticity of a report purportedly to be the assessment of the mid year performance could not be established since no signature by the accounting officer or any other form of evidence that provide sufficient appropriate audit evidence that this section had been complied with, could be obtained.

###### **Cause:**

Contravention of the MFMA by not ensuring that adequate controls are in place to ensure compliance with laws and regulations.

###### **Impact:**

The accounting officer has not complied with responsibility given to him under section 72(1)(a) of the MFMA and thus could compromise accountability with regard to duties conferred by the MFMA.

##### **Internal control deficiency**

The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

##### **Recommendation**

The accounting officer should provide us with proof that the mid-year budget assessment was performed and submitted to the mayor, national and provincial treasuries. Confirmation should also be supplied that the revised estimates at 25 January 2010 were submitted.

##### **Management response**

##### **Auditor's conclusion**

## Borrowings & long-term loans

### 5. Finance lease liabilities: Leases incorrectly classified as operating leases (EX.112)

#### Audit finding

#### Requirement / Limitation:

As per GRAP 13, the definition of a finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

Paragraph 12 of GRAP 13 states that whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Although the following are examples of situations which would normally lead to a lease being classified as a finance lease, a lease does not need to meet all these criteria in order to be classified as a finance lease:  
(c) the lease term is for the major part of the economic life of the asset even if title is not transferred.

#### Nature:

It was noted that contracts with Canon and Nashua are classified as operating leases. Since both the useful lives of computer equipment and lease terms are 5 years, and the cost of maintenance and ownership lies with the municipality, the leases should be considered to be a finance leases in terms of GRAP 13.

The details of the said agreements are as follows:

NAME OF LESSOR	MAKE	DESCRIPTION	MODEL	SERIAL NUMBER	MONTHLY RENTAL (EXCL.VAT) R	RENTAL PERIOD	NUMBER OF PAYMENTS IN 09/10	OPERATING LEASE PAYMENTS 09/10 R	TOTAL LEASE PAYMENTS OVER RENTAL PERIOD R
Canon	Canon	Copier	IR1600	UJJ49741	2 450 ,00	5 years	3	7 350 ,00	147 000 ,00
Canon	Canon	Copier	IR3100CN	JHC05427	5 670 ,00	5 years	4	22 680 ,00	340 200 ,00
Canon	Compact DA-Lite TAO	Projector Wallmat Amplifier	C180 C2 A1724	ALYN42900207 410220880 5010331110	3 895 ,00	5 years	12	46 740 ,00	233 700 ,00
Canon		Delegate unit and projector Control unit and recorder Handycam		ALKN 50999787 HO 0003973 05B 8734116	3 945 ,00	5 years	12	47 340 ,00	236 700 ,00
Canon	Canon	Copier	IR3300	UHL16353	5 430 ,00	5 years	5	27 150 ,00	325 800 ,00

NAME OF LESSOR	MAKE	DESCRIPTION	MODEL	SERIAL NUMBER	MONTHLY RENTAL (EXCL.VAT) R	RENTAL PERIOD	NUMBER OF PAYMENTS IN 09/10	OPERATING LEASE PAYMENTS 09/10 R	TOTAL LEASE PAYMENTS OVER RENTAL PERIOD R
Canon	Samsung Mecer Panasonic	3 Samsung 42" plasma TVs 2 Mecer Laptops, Panasonic projector Pull down screen Sound video play Boardroom speakers	Gigabyte	various Serial numbers BH549 and BH550 SC7450806R	4 798 ,00	5 years	12	57 576 ,00	287 880 ,00
Canon	Mecer	4 laptops		7M4010239-01 to 04	1 980 ,00	5 years	12	23 760 ,00	118 800 ,00
Canon	Mecer	5 laptops		7M4010239-05 to 09	2 475 ,00	5 years	12	29 700 ,00	148 500 ,00
Nashua	Nashua	Copier	MP5500	L7772800594	7 490 ,00	60 months	12	89 880 ,00	449 400 ,00
							<b>TOTAL</b>	<b>352 176 ,00</b>	<b>2 287 980 ,00</b>

**Cause:**

Misinterpretation of GRAP 13.

**Impact:**

Overstatement of general expenses of R352 176

Understatement of capitalized assets and finance lease liabilities of R2 287 980

**Internal control deficiency**

Financial and performance management: Adequate financial management systems - Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.

**Recommendation**

It should be ensured that the assets are capitalised according to the requirements of GRAP 13.

**Management response**

No management response received.

**Auditor's conclusion**

Since no response from management was received, the matter is reported as it is.

**6. SCM: Computer equipment procured at inflated prices (EX.117)**

**Audit finding**

**Requirement/Limitation:**

Section 19(1) of the MFMA that requires a municipality may spend money on a capital project only if the money for the project, excluding the cost of feasibility studies conducted by or on behalf of the municipality, has been appropriated in the capital budget, the project, including the total cost, has been approved by the council; section 33 has been complied with, to the extent that that section may be applicable to the project; and the sources of funding have been considered, are available and have not been committed for other purposes.

Section 19(2) also requires that before approving a capital project in terms of subsection (1)(b), the council of a municipality must consider the projected cost covering all financial years until the project is operational; and the future operational costs and revenue on the project, including municipal tax and tariff implications.

Section 46(1) of the MFMA states that a municipality may incur long-term debt only if a resolution of the municipal council, signed by the mayor, has approved the debt agreement; and the accounting officer has signed the agreement or other document which creates or acknowledges the debt and only if the accounting officer of the municipality has, in accordance with section 21A of the Municipal Systems Act at least 21 days prior to the meeting of the council at which approval for the debt is to be considered, made public an information statement setting out particulars of the proposed debt, including the amount of the proposed debt, the purposes for which the debt is to be incurred and particulars of any security to be provided; and invited the public, the National Treasury and the relevant provincial treasury to submit written comments or representations to the council in respect of the proposed debt; and submitted a copy of the information statement to the municipal council at least 21 days prior to the meeting of the council, together with particulars of—

- (i) the essential repayment terms, including the anticipated debt repayment schedule; and
- (ii) the anticipated total cost in connection with such debt over the repayment period.

Section 62(1)(d) of the MFMA states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that irregular expenditure are prevented.

In terms of paragraph 34 of GRAP 13: *Leases*, the municipality should have recognised the finance lease assets and liabilities in their statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments.

**Nature:**

During the performance of audit procedures, the following non-compliance with supply chain management requirements were identified:

(a) In paragraph 15(b) of the 2008/09 audit report, irregular expenditure of R5 139 560 was reported on. During this audit, we identified that the municipality has been committed for the next 5 years in a finance lease agreement with suppliers at prices that were not competitive. In the following instance, items acquired during 2008/09 amounted to R708 548 but has been locked in a finance lease for a total of R5 139 560 which is between 535% - 688% more than what could have reasonably have been paid.

(b) An agreement for a further R1 759 041 was entered during the year under review for items that otherwise could have been purchased for R224 997 (682% higher than price (excluding finance charges)

ASSET DESCRIPTION	ACQUISITION DATE	AMOUNT CAPITALIZED WHICH INCLUDES FINANCE CHARGES (A) R	LOAN NUMBER	PRICES ACCORDING TO EXTERNAL QUOTATION (B) R	DIFFERENCE (C) R	FINANCE CHARGES ON LOANS (PER EXTERNAL CONFIRMATION) R	RATIO'S (C/B)
45 X Dell Vostro Desktop	20/4/2009	1 834 480,00	537	289 091,25	1 545 388,75	492 851,96	535%

ASSET DESCRIPTION	ACQUISITION DATE	AMOUNT CAPITALIZED WHICH INCLUDES FINANCE CHARGES (A) R	LOAN NUMBER	PRICES ACCORDING TO EXTERNAL QUOTATION (B) R	DIFFERENCE (C) R	FINANCE CHARGES ON LOANS (PER EXTERNAL CONFIRMATION) R	RATIO'S (C/B)
Computers							
Gestetner digital laser printers	30/4/2009	3 305 080,00	538	419 457,00	2 885 623,00	1 529 378,60	688%
<b>2008/09 agreements</b>		<b>5 139 560,00</b>		<b>708 548,25</b>	<b>4 431 011,75</b>	<b>2 022 230,56</b>	
45 X Acer Desktop Computers	1/7/2009	1 759 041,45	539	224 997,75	1 534 043,70	477 637,47	682%
<b>2009/10 agreements</b>		<b>1 759 041,45</b>		<b>224 997,75</b>	<b>1 534 043,70</b>	<b>477 637,47</b>	
<b>TOTALS</b>		<b>6 898 601,45</b>		<b>933 546,00</b>	<b>5 965 055,45</b>	<b>2 499 868,03</b>	<b>639%</b>

(c) The following non-compliance with SCM requirements were observed with these transactions:

1. No competitive bidding processes as per paragraph 20 of the municipality's SCM policy were followed neither were the municipality's unsolicited bidding procedure outlined in paragraph 37 of the SCM policy followed with the acquisition of the assets
2. There was no funding in the approved budget which constitute unauthorised expenditure as required by section 19 of the MFMA
3. The provisions of section 46 of the MFMA were not complied with
4. The accounting officer did not take appropriate steps to ensure that irregular, fruitless and wasteful expenditure were avoided as per the requirement of section 62 of the MFMA. Not following the correct procedure resulted in irregular, fruitless and wasteful expenditure estimated to be at least R2 499 868.

Notwithstanding this transactions pertaining to the 2008/09 financial year having been reported to council, no steps were taken to individuals responsible for the incurring of this long term debt outside the existing policies of the municipality.

**Cause:**

- The applicable authorization was not obtained from council
- No effort was made to involve the community in the process
- The only persons involved in the authorization of the procurement, was management

**Impact:**

Irregular, fruitless and wasteful expenditure are not adequately quantified and disclosed in the financial statements that result in a qualification of the audit report

Fruitless and wasteful expenditure amounts to R5 965 055,45 with regards to the inflation of the prices and R2 499 868,03 due to unnecessary finance costs paid.

Contrary to this, the value of finance leases disclosed in note 16 to the financial statements are overstated by at least R2 499 868 which is in respect of lease assets acquired at amounts significantly higher than their fair value on which the future minimum payments are based.

This is an anomalous misstatement and will therefore not be extrapolated over a population.

**Internal control deficiency**

Leadership - Oversight responsibility: The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

**Recommendation**

The accounting officer should disclose all fruitless and wasteful expenditure and implement measures to ensure compliance with SCM regulations. Appropriate disciplinary steps should be taken against person(s) and the recovery of amounts irregularly spend should be considered.

**Management response**

No management response received.

**Auditor's conclusion**

Since no response from management was received, the matter is reported as it is.

## **7. Borrowings: Long-term loan incurred without council approval (EX.24)**

### **Audit finding**

Requirement/Limitation:

Section 46(2) of the MFMA, Act No. 56 of 2003, states the following:

A municipality may incur long term debt only if:

- a) A resolution of the municipal council, signed by the mayor, has approved the debt agreement; and
- b) The accounting officer has signed the agreement or other document which creates or acknowledges the debt.

Nature:

During the previous year it was disclosed (note 37.3 Irregular expenditure) that two loans (Loans no.537 and 538 which totalled to R5 139 560) were incurred during the 2008/09 financial year but the following information could not be obtained for audit purposes:

1. The council resolution granting approval for the taking of the two new loans. [Section 46(2)(a)]
2. The loan contracts (between the municipality and the providers of the funds). [Section 46(2)(b)]
3. The public information statement(s) setting out the particulars of the two loans. [Section 46(3)(a)]
4. The submission of the above information statement to the council for approval. [Section 46(3) (b)].
5. Documents displayed on the municipality's official website ([www.setsoto.co.za](http://www.setsoto.co.za)) as envisaged by section 21B of the Municipal Systems Act.
- 6.

Evidence that this matter has been corrected could not be obtained for audit purposes. During the current year it was again noted that the municipality made additional new loans amounting to R2 734 586 and disclosed as irregular expenditure in note 37.3.

No actions were taken to the person(s) responsible for the irregular expenditure in terms of section 32(a) of the MFMA.

Cause:

Failure by management to follow policies and procedures with regard to taking on long term debt results in the financial statements not giving a fair representation of the true state of affairs and the conduct of the municipality.

Impact:

The municipality have incurred debt without the required prior approval of the municipal council as well as the mayor.

### **Internal control deficiency**

Oversight responsibility - The municipal manager does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

### **Recommendation**

Comments should be supplied why policies and procedures were not followed and/or adhered to in incurring long term debt.

Evidence should be submitted by management on how the matter of the previous year was followed the efforts envisaged to have it corrected.

The necessary steps should be taken to ensure that management is aware of the processes to be followed before long term debt can be incurred. This will ensure in the municipality being compliant with the requirements of the MFMA and the Municipal Systems Act.

### **Management response**

### **Auditor's conclusion**

## **8. SCM: Procedures not followed for finance lease liabilities (EX.33)**

### **Audit finding**

Requirement/Limitation:

Section 62(1)(d) of the MFMA states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that irregular expenditure are prevented.

As per SCM policy paragraph 19(1), long term contracts may only be procured through a competitive bidding process.

The process for competitive bidding is described in paragraph 20 of the SCM policy.

**Nature:**

a) No evidence could be obtained to prove that the competitive bidding process was followed in the procurement of the two lease agreements capitalized during the current year. Expenditure amounting to R1 237 139,17 was incurred during the current year, which should be disclosed as irregular expenditure if read with the definition of irregular expenditure in section 1 of the MFMA. The details of these agreements are as follows:

LOAN NO.	SERVICE PROVIDER	ASSET ACQUIRED	CONTRACT PERIOD	CONTRACT APPROVED DATE	CAPITALIZED AMOUNT (R)	CONTRACT APPROVED AMOUNT (PER MONTH) (R)	CURRENT YEAR EXPENSES (R)
539	Fintech	45 Acer desktop computers	36 months	30/03/2009	1 664 250,30	61 190,64	734 287,68
540	Fintech (Gestetner)	5 Copiers and 2 fax machines	36 months	01/07/2009	1 070 335,96	41 904,29	502 851,49
<b>Total</b>					<b>2 734 586,26</b>	<b>103 094,93</b>	<b>1 237 139,17</b>

b) The above-mentioned amount above is not included in the R1 165 909 already disclosed in note 38.6 of the Annual Financial Statements, which remains a non-compliance with the MFMA and non-adherence to the SCM policy although it had been disclosed.

**Cause:**

Adequate measures were not implemented to ensure that Supply Chain Management procedures are followed.

**Impact:**

Irregular expenditure amounting to R1 237 139,17 was incurred due to non-adherence to the SCM policy.

This is an anomalous misstatement and will therefore not be extrapolated over a population.

**Internal control deficiency**

Leadership - Oversight responsibility: The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

**Recommendation**

The accounting officer should disclose all irregular expenditure and implement measures to ensure compliance with SCM regulations.

**Management response**

The municipality shall table the transactions to Council to be condoned during the next council meeting on the 02th December 2010.

The municipality is in the process of compiling internal control procedures that would regulate the provisions to be complied with in terms of acquiring a loan or a long term contract. The municipality has already appointed a service provider. The foregoing shall assist the municipality in order to prevent such transactions from occurring.

**Auditor's conclusion**

As indicated by management, various actions are to be done. Therefore, the matter will still be reported during the current year and should be followed up in the 2010/2011 audit.

**9. Finance lease liabilities: New assets could not be traced (EX.89)**

## Audit finding

### Requirement / Limitation:

In terms of section 78(1) of the MFMA each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that the assets are managed effectively and that it is safeguarded and maintained.

### Nature:

The following new computer equipment could not be found. This matter was discussed with the IT manager (Rakesh Bugwandeem) but could not be obtained:

MAKE	DESCRIPTION	MODEL	SERIAL #	TOWN	CONTACT PERSON	CAPITALIZED COST
Gestetner	Copier	MP2550CSP	M6996100775	Marquard	Karabo	136 040,80
Gestetner	Fax	3320	A3589600910	Marquard	Karabo	34 318,27
Gestetner	Fax	3320	A3589600913	Ficksburg	Finance	34 318,27
					<b>TOTAL</b>	<b>204 677,34</b>

### Cause:

Proper records of exactly where assets are kept are not maintained.

### Impact:

Existence of finance lease assets to the value of R1 121 406.54 could not be verified. This is the actual limitation over the population and will therefore not be extrapolated.

## Internal control deficiency

Financial and performance management: Quality, reliable monthly financial statements and management information - Pertinent information is not identified and captured in a form and time frame to support financial and performance reporting.

## Recommendation

Management should ensure that the physical location of equipment is identified and supply the audit team with evidence that the assets do exist.

## Management response

No management response received.

## Auditor's conclusion

Since no response from management was received, the matter is reported as it is.

## Cash and cash equivalents

### 10. Cash and Cash equivalents - Receipt report not submitted (EX.110)

#### Audit finding

##### Requirement/Limitation:

Section 74 (1) of the MFMA requires that the accounting officer of a municipality must submit to the Auditor-General such information, returns, documents, explanations and motivations as may be required

Section 62(1)(b) of MFMA prescribes that the accounting officer for a municipality is responsible for managing the financial administration of the municipality and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norm and standards.

##### Nature:

Contrary to the provisions of section 62(1)(b) of the MFMA the municipality does not always keep adequate financial records.

The items listed below were selected from the bank account (income) in the ledger for testing but could not be traced on the daily receipt report as reports for these days could not be obtained for audit purposes. This matter was discussed with the senior cashier (Mr Justice Ntombela) on 9 November 2010. Details of the daily system reports that could not be obtained are:

Vote	DATE	CODE	ITEM	AMOUNT (R)
510 0001 00 3	7/10/2009	1	16718	45,234,780.66
510 0001 00 3	7/10/2009	1	16705	200,778.79
510 0001 00 3	7/20/2009	1	21363	871,111.37
510 0001 00 3	7/21/2009	1	21416	658,389.52
510 0001 00 3	8/12/2009	1	24559	3,125,130.04
510 0001 00 3	9/22/2009	1	36469	155,481.21
510 0001 00 3	12/1/2009	1	53870	37,967,142.50
510 0001 00 3	1/8/2010	1	62431	542,073.39
<b>Total</b>				<b>88,754,887.48</b>

**Cause:**

Management could not provide the required information due to weaknesses in municipality's record keeping system.

**Impact:**

Limitation of scope on the audit at 30 June 2010.

**Internal control deficiency**

Financial and performance management - Proper record keeping and record management: Requested information was not available and supplied without any significant delay.

**Recommendation**

Details of these receipts and the amounts as processed on the system should be made available for audit purposes. Management should implement proper record keeping measures to ensure that all information is available.

**Management response**

**Auditor's conclusion**

**11. Cash and cash equivalents: Payment vouchers could not be trace to files (EX.128)**

**Audit finding**

**Requirement/Limitation:**

Section 74 (1) of the MFMA requires that the accounting officer of a municipality must submit to the Auditor-General such information, returns, documents, explanations and motivations as may be required.

Section 62(1)(b) of MFMA prescribes that the accounting officer for a municipality is responsible for managing the financial administration of the municipality and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norm and standards.

**Nature:**

Request for information No. 34 was sent on 22 October 2010 in which all the payment voucher files were requested. The following specific payment vouchers could not be traced within the payment voucher files that were provided. The items were part of a sample selected from the ledger and the payment vouchers were required to verify the supporting documentation in that regard.

DATE	CODE	ITEM	AMOUNT R
15/07/2009	8	15346	(3,665,036.60)
21/07/2009	8	29578	(879,833.05)
17/08/2009	8	15786	(4,554,661.05)

DATE	CODE	ITEM	AMOUNT R
17/08/2009	8	29605	(970,699.02)
11/092009	8	16149	(725,382.00)
20/11/2009	8	29690	(1,263,060.76)
15/02/2010	8	18495	(1,884,626.57)
18/03/2010	8	29790	(1,278,923.35)
08/042010	8	19171	(1,062,958.59)
02/062010	8	19918	(653,000.00)
Total:			(16,938,180.99)

This error will not be extrapolated over the total population because it is not a homogenous account balance and has different characteristics to consider.

**Cause:**

Important documents are not properly filed in order to make it easy to locate them.

**Impact:**

A limitation of scope on the audit of 30 June 2010 as these items could not be audited.

**Internal control deficiency**

Financial and performance management - Proper record keeping and record management; the documents supporting the above are properly filed and easily retrievable: Requested information was not available and supplied without any significant delay.

**Recommendation**

Reasons as to why these payment vouchers were not included in the files should be forwarded. Management should also implement proper record keeping measures to ensure that all documents are available.

**Management response**

**Auditor's conclusion**

## 12. Cash and Cash Equivalents: Non-compliance with S 70(2) of MFMA (EX.46)

### Audit finding

#### Requirement:

In terms of section 70(2) of the MFMA, the municipality must notify the National Treasury if the bank account balance is in an overdraft. Section 70 (3) stipulates that when determining the net overdrawn position the accounting officer must exclude any amounts reserved or pledged for any specific purpose or encumbered in any other way.

#### Nature:

Contrary to section 70(2) and (3) of the MFMA, evidence could not be obtained that the municipality notified National Treasury of the overdrawn bank account position. The bank balance of the municipality on 30 June 2010 was found to have been in an overdraft position. It was noted as well that of the 12 months in a financial year the municipality's bank account was in an overdraft position for 9 of those months. Details are as follows:

DETAILS	DATE	AMOUNT R
Closing balance	7/31/2009	2 887 067,44
Closing balance	8/31/2009	1 213 204,94
Closing balance	9/30/2009	2 491 096,75
Closing balance	10/31/2009	17 489 793,77
Closing balance	12/31/2009	4 774 503,24
Closing balance	2/28/2010	3 621 845,46
Closing balance	4/30/2010	6 771 070,26
Closing balance	5/31/2010	7 203 147,46
Closing balance	6/30/2010	7 311 215,44

This matter was also included in exception number 48 of the previous financial year. In response to this matter the previous year the municipality responded that "processes will be instituted to ensure that adherence to the MFMA requirements being done during the year. The necessary caution will be taken to report as per the requirements of the MFMA".

The issue was discussed with the CFO, Mr Mabuya on 29 September 2010 and he confirmed that they did not send any notifications to National Treasury.

#### Cause:

The municipality did not notify the National Treasury of this deviation as required by the MFMA.

#### Impact:

The municipality is not complying with the provisions of the MFMA. It defeats the objectives of the MFMA which holds the municipality accountable to the National Treasury.

### Internal control deficiency

Oversight responsibility - the accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

### Recommendation

The accounting officer should implement and adhere to controls to ensure that the municipality comply with section 70(2) of the MFMA.

It would also be advisable for the municipality to establish policy and procedures which would be effective and appropriate to avoid municipality operating in overdraft for a long period.

### Management response

The municipality has taken note at that and we ensure that compliance to section 70(2)(3) of the MFMA shall be effected during the financial year 2010/2011 at least at the end of the financial year.

## Auditor's conclusion

The exception will remain since management agrees with the finding. The matter will be followed up in the subsequent financial year to confirm if management has complied with the requirement.

## Commitments

### 13. Capital commitments: Contracts not obtained for audit purposes (EX.111)

#### Audit finding

#### Requirement/Limitation:

As per paragraph 39 of the audit engagement letter 27 July 2010, discussed and agreed upon between the Auditor-General South Africa (AGSA) and the Accounting Officer of the Setsoto local municipality, information requested should be submitted within 3 days of the submission of the request to the Auditor-General South Africa.

#### Nature:

1) Contracts were requested on 5 November 2010 as per information request No.40 in order to audit the disclosure of capital commitments as disclosed in note 39 of the financial statements.

The following contracts were still outstanding as on 10 November 2010:

DESCRIPTION OF CONTRACT	TENDER NO/MIG FUND NO	CAPITAL COMMITMENT OPENING BALANCE R	PAYMENTS MADE 2009/2010 R	CAPITAL COMMITMENT R	NAME OF BENEFICIARY
Construction of toilet top structure in Hlohlolwane	(06/07)	1 529 327,82		1 529 327,82	FN Skonsana
Construction of bus route Marquard		3 797 092,06		3 797 092,06	Kgatontle Development CC & HV Mphohadi BV
Construction of bus route Clocolan	T020(06/07)	2 411 594,32		2 411 594,32	Kgatontle Development CC & HV Mphohadi BV
Construction of pump station in Ficksburg	T03(07/08)	2 077 085,12	319 255,40	1 757 829,72	Part B - Mphohadi Business venture
Marquard: Augmentation of raw water supply	MIG/FS0351/w/06/08	24 475 152,00	2 432 024,67	22 043 127,33	Various contractors
Installation of 4815 water meters in Marquard	MIG 1	6 262 918,73	410 429,26	5 852 489,47	Various contractors
Installation of 5684 water meters in Clocolan	MIG/FS0583/w/06/08	7 390 078,40	479 254,05	6 910 824,35	Various contractors
Installation of 11521 water meters in Ficksburg	MIG 1	14 978 643,30	932 419,82	14 046 223,48	Various contractors
				58 348 508,55	

The amount of R58 348 509 represents the total outstanding commitment at year end and due to tender documents not obtained, the amount could also not be verified as outstanding at year end.

The unavailability of the documentation could lead to a significant limitation of scope of R58 348 509 and which could result to a qualification in the audit report.

#### Cause:

Except for contracts relating to FN Skosana and Mphohadi Business Venture whose contracts were found to be with the contractor, no explanations could be provided on why tender documents could not be submitted for audit purposes.

#### Impact:

The late submission of information is in contravention of the agreement in the engagement letter, which could lead to an increase in audit fees.

By not submitting the required information, the municipality staff place a significant limitation on our scope of R58 348 509.

**Internal control deficiency**

Financial and performance management - Proper record keeping and record management; the documents supporting the above are properly filed and easily retrievable: Requested information was not available and supplied without any significant delay.

**Recommendation**

Management should submit the contracts as a matter of urgency.

**Management response****Auditor's conclusion**

## Employee costs

### 14. Employee related cost: Municipal Manager's qualification (EX.115)

#### Audit finding

##### Requirement/Limitation:

The Human Resource Policy Manual (the in-house policy) section states paragraph 4.1.2 (e) and (f) states that:

- ☑ The Municipal Manager may, after consultation with the Director Corporate Service and Financial Services, appoint a professional recruitment firm to compile an advertisement and publish it in respect of senior management and professional occupations in terms of the Municipality's supply chain management policy.
- ☑ An advertisement of a vacancy must state minimum requirements in terms of skills and other qualities for appointment.

In terms of section 82(2) of the Municipal Structures Act, 1998, a person appointed as municipal manager must have the relevant skills and expertise to perform the duties associated with that post.

##### Nature:

Contrary to the policy, the following were noted on the personnel file of the Municipal Manager (MM) while auditing the new appointments files:

- The copies of his qualifications which are not certified by Commissioner of Oaths were accepted by Human Resource Department.
- Through inspection of the qualification copies which are not certified by Commissioner of Oaths, the Senior Certificate (std 10) and Secondary Teachers' Diploma certificate, could not be verified that they belong to the municipal manager as the identity number on the is not a valid number (it contains 9 numbers) and it is not match with his identity number or date of birth. The identity number as shown on the certificate is 168060678. This qualification is not reflected on his curriculum vitae.
- According to the councillor held on 30 March 2010 the municipal manager post was advertised, it could not be verified as no proof of advertisement was attached.

##### Cause:

The cause of this transgression is a failure by the human resources unit of the municipality to ensure that prior to the appointment of an individual in the municipality; the prospective appointee has submitted all required documents.

##### Impact:

Sufficient, appropriate audit evidence does not exist or could not be provided that the incumbent complied with section 82(2) of the Municipal Structures Act, 1998

Payments made to the municipal manager since April 2010 of R208 584.80 could potentially be classified as irregular expenditure since services were acquired that do not comply with the requirements of the job description.

#### Internal control deficiency

Leadership: Oversight responsibility - The commitment to quality is not communicated.

#### Recommendation

The internal controls should be corrected to ensure that only certified copies, which clearly state the certification, are accepted and included in SP files of the officials.

If payments were made to which the job requirements were not met, this fact should be disclosed in the financial statements

#### Management response

#### Auditor's conclusion

### 15. Employee related cost: No record file for peach project workers (EX.120)

#### Audit finding

##### Requirement/Limitation:

According to Municipal Finance Management Act, section 66(a), The accounting officer of a municipality must, in a format and for periods as may be prescribed, report to the council on all expenditure incurred by the municipality on staff salaries, wages, allowances and benefits, and in a manner that discloses such expenditure per type of expenditure, namely- (a) Salaries and wages.

**Nature:**

On enquiry and verbal request of files from Mr. S Skhosana Human Resource Manager on 4 November 2010, it was confirmed that employees who worked on the Peach Project effective from February 2006 did not have personnel files as they do not fall under the municipality, this matter was also confirmed by Ms D Molete Director Economic and Community Services during the meeting with those in charge with governance held in 16 September 2010. Mr Skhosana confirmed that initially the project was not under the LED projects. He refers me to Mr. T Zondo for LED Officer, but could not be reached for comment as he will only be available on 12 November 2010.

Through inspection and enquiry from the Peach Project during the employee verification, the following were identified:

- The payslips confirm the day on employment as 01 February 2006 but the workers confirmed that they have been employed from April 2002, the number of employees where 80 on the commencement of the project. According the information from salary department the number of workers are 44.
- According to the letter submitted by one of the workers, the letter was written by former Municipal Manager (MM) John Makelelane dated 28 May 2004 confirming that the officials is the beneficiary to the Peach Farm Project under the auspices of the Bio-fresh. They also stated that this project complied with the DoRA and other relevant legislation. The workers also confirmed that they are unsure of their position as they are referred to as beneficiaries and workers, they also complained that on previous years they were receiving bonuses. the latter could not be confirmed.
- It was also noted that these workers are not on the organogram of the municipality.

Therefore issues such as conditions of employment as well as validity and existence of employees could not be confirmed. The following is a list of employees on the Peach project:

EMPLOYEE NO.	NAME
300146	Motjope AP
300207	Ramosebi J
300221	Matshela MD
300232	Makime MI
300234	Lefosa MA
300250	Mafeka RC
300251	Maphike T
300270	Morake MJ
300283	Modupe ME
300283	Mofolo TP
300346	Motloenya S
300376	Sebotsa NA
300384	Kgauwe VJ
300429	Nhlapo ML
300431	Selepe MA
300538	Tlali LC
300945	Leteane SD
301220	Khabane AM

**Cause:**

Lack of monitoring of controls as well as record keeping by management.

**Impact:**

The wages of R1200.10\*12\*44= R633 652,80 paid to the peach workers could be classified as irregular payments.

**Internal control deficiency**

Leadership: Oversight responsibility - The commitment to quality is not communicated.

**Recommendation**

The management should ensure that all new employees have personnel file with all employee details. Reasons why the salaries amounting to R633 652,80 should be regarded as irregular expenditure should be submitted for audit purposes.

**Management response****Auditor's conclusion**

## **16. Employee Cost: Qualifications of the CFO (EX.19)**

### **Audit finding**

#### **Requirement/Limitation:**

The advertisement of vacancy found on the personnel file of the Chief Financial Officer (CFO), Mr. CM Mabuya, submitted to the auditors on 24 August 2010 clearly indicates that a detailed and comprehensive curriculum vitae accompanied by certified copies of qualifications must be submitted when applying for the position of CFO at the municipality.

The Human Resource Manual Policy paragraph 4.3 states that the appointment may take place only in accordance with the requirements of the post concern and the merit of the applicant.

Section 56(b) of the MSA states that the appointment of a manager directly accountable to the municipal manager must have the relevant skills and expertise to perform the duties associated with the post in question, taking into account the protection or advancement of persons or categories of persons disadvantaged by unfair discrimination.

#### **Nature:**

Original certified copies of the qualifications of the CFO were still not found on his personnel file notwithstanding this issue being previously addressed. In view of these we are unable to confirm that the appointment was made in a regular manner.

We noted that in the course financial year three letters were issued the municipality (human resources) by requesting the information but at time of the audit, but had not been replied to.

Contrary to the section 56(b) of the MSA and paragraph 4.3 of the in-house policy, I could not confirm that the appointment of the Director Financial Services complied with these requirements as I did not obtain sufficient appropriate audit evidence that indicated that the incumbent complied with the job requirements which are highlighted on the advert.

#### **Cause:**

The cause of this transgression is a failure by the human resources unit of the municipality to ensure that prior to the appointment of an individual in the municipality, the prospective appointee has submitted all required documents as per the advertisement of the vacancy including original certified copies of his/her qualifications.

#### **Impact:**

In the absence of original certified true copies Director Corporate Services' qualifications we are not able to verify that the appointee, appointed on this position meets the municipal's objectives relating to qualifications required as it was stated in the advertisement there by may not achieve the financial reporting objective and that section 56(b) of the MSA was complied with.

According to note 25 to the financial statements, remuneration paid to the CFO amounted to R737 758 (2009: R360 921) that could potentially be classified as not properly authorized and or overpayments.

### **Internal control deficiency**

Leadership: Oversight responsibility - The commitment to quality is not communicated.

### **Recommendation**

The accounting officer must submit original certified copies for the audit purpose as well as for record purposes in the employee file of the CFO. If not submitted steps must be taken to ensure the appointee's remuneration and responsibilities are in line with qualifications.

### **Management response**

### **Auditor's conclusion**

## **17. Employee Cost: Allowances overpaid to councillors still not recovered (EX.22)**

### **Audit finding**

#### **Requirement/Limitation:**

The remuneration of councillors are determined and published in terms of the Remuneration of Public Office Bearers Act no. 20 of 1998. Any overpayments made to councillors should be regarded as unauthorized according to section 32 of the MFMA and recovered.

#### **Nature:**

According to note 37.3 irregular expenditure of R173 820 (2009: R687 587) was incurred.

It was confirmed with Mr. Mabuya: Chief Financial Officer on 3 September 2010 that the money over paid to the councillors have not yet been recovered. He also confirmed that letters to recover the debts will be issued to councillors during the month of September 2010 but evidence of signed letters could not yet be obtained for audit purposes. In terms of the code of conduct of the Councillors they may not be in arrear for three months and in the absence thereof do not set an example for the community.

**Cause:**

The Municipality did not exercise the necessary control to ensure measures were implemented to recover the moneys from the councillors concerned.

**Impact:**

Irregular payments should be recovered from the councillors, increase debtors balances and if not recovered in time, good be resulting in a loss of income.

**Internal control deficiency**

Leadership - Oversight responsibility: the accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

**Recommendation**

Evidence should be submitted that these amounts have been disallowed as expenditure and a debtor's account opened to have it recovered.

The financial statements should accordingly be adjusted once these amounts have been disallowed.

**Management response**

**Auditor's conclusion**

Further details on this irregular expenditure is also not disclosed as per the requirements of section 25(2)(d) of the MFMA.

## 18. Remuneration of councillors not paid according to Public Office Bearers Act (EX.59)

### Audit finding

#### Requirement/Limitation:

The remuneration of councillors were determined and published in terms of the Remuneration of Public Office Bearers Act no. 20 of 1998 in government notice 32933 of 21 December 2009. In terms of SALGA circular 58/2009 of 21 December 2009, the municipality is advised in paragraph 2.1 to ensure that council consult the MEC before paying these increased allowances which is requirement of section 7(3) of the act.

#### Nature:

1. We did not obtain evidence that the MEC: Cooperative Governance and Traditional Affairs consented to council paying the higher increases of remuneration to the councillors effective from 1 July 2009. This was corroborated through our discussions with Ms Sophia Mihailescu (Admin Manager), Ms Selina Lebeko (Chief Internal Audit Manager) and Ms Ansie Pieters (Accountant Salaries) confirmed on the 18 October 2010 that the upper limits were paid in accordance with the gazette but prior to the approval by the MEC of Provincial Department of Co-operative Governance and Traditional Affairs.

2. It was noted that in note 27 of the 2009/10 financial statements the remuneration of councilors has been disclosed as follows which amounts agrees with the salary system information but differs with the government gazette dated 21 December 2009 number 32833. These councillors were again overpaid in the 2009/10 financial year by at least R129 767 (2009: R173 820)

POSITION	ALLOWANCE AS PER GAZETTE R	ALLOWANCE AS PER FINANCIAL STATEMENT R	DIFFERENCE R
Mayor	416 256,00	421 353,00	-5 097,00
Speaker	333 004,00	337 193,00	-4 189,00
Members of Executive Committee	1 030 230,00	1 043 553,00	-13 323,00
Ordinary members	2 997 024,00	3 104 182,00	-107 158,00
			<u>-129 767,00</u>

- It was also confirmed that councillors' telephone allowance was also not paid according the gazette

POSITION	ALLOWANCE AS PER GAZETTE R
Mayor	17 100,00
Speaker	17 100,00
Members of Executive Committee	64 008,00
Ordinary members	256 032,00
<b>Total amount per gazette</b>	<b>354 240,00</b>
<b>Total amount per financial statement</b>	<b>1 407 626,00</b>
<b>Difference</b>	<b>-1 053 386,00</b>

#### Cause:

Non compliance with the requirements of the Remuneration of Public Officer Bearers Act

#### Impact:

Irregular payments of R1 183 153,00 that should be recovered from the councillors, increase debtors balances and if not recovered in time could results in a loss of income.

#### Internal control deficiency

Leadership - Oversight responsibility; the accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

#### Recommendation

These amounts should been disallowed as expenditure and a debtors account opened while efforts to have it recovered being implemented.

The financial statements should accordingly be adjusted once these amounts have been disallowed.

#### **Management response**

#### **Auditor's conclusion**

Contrary to section 7(1) of the Act, councillors were paid R1 183 153 more than what was approved by the Minister and details of this irregular expenditure was not disclosed in the note to the financial statements in line with section 125(2)(d) of the MFMA.

#### **19. Employee related cost: Qualifications of the Director Corporate Services not available on personnel file (EX.91)**

##### **Audit finding**

##### **Requirement/Limitation:**

The Human Resource Manual Policy paragraph 4.3 states that the appointment may take place only in accordance with the requirements of the post concern and the merit of the applicant.

The advertisement of vacancy found on the personnel file of the Director Corporate Services Mr. TB Khaose, submitted to the auditors on 13 October 2010 clearly indicates that a detailed and comprehensive curriculum vitae accompanied by certified copies of qualifications must be submitted when applying for the position.

Section 56(b) of the MSA states that the appointment of a manager directly accountable to the municipal manager must have the relevant skills and expertise to perform the duties associated with the post in question, taking into account the protection or advancement of persons or categories of persons disadvantaged by unfair discrimination.

##### **Nature:**

Contrary to section 56(b) of the MSA and paragraph 4.3 of the Human Resource Policy, it could not confirmed that the appointment of the Director Corporate Services complied with these requirements as I did not obtain sufficient appropriate audit evidence that indicated that the incumbent complied with the job requirements which are highlighted on the advert.

The advertisement found on the vacancy file submitted to us clearly indicates that detailed and comprehensive curriculum vitae accompanied by certified copies of qualification must be submitted. The copies on file are that of certified copies of copied certificates. The HR Manager was consulted on 13 October 2010 to bring certified copies of qualification but to no avail until to-date.

##### **Cause:**

Failure by the human resources unit of the municipality to ensure that prior to the appointment of an individual in the municipality, the prospective appointee has submitted all required documents as per the advertisement of the vacancy including original certified copies of his/her qualifications.

##### **Impact:**

In the absence of original certified true copies Director Corporate Services' qualifications we are not able to verify that the appointees, appointed on this position meets the municipal's objectives relating to qualifications, required as it was stated in the advertisement.

Remuneration paid to the Director: Corporate Services of R761 754 as per note 25 to the financial statements could be classified to be of an irregular nature.

##### **Internal control deficiency**

Leadership: Oversight responsibility - The commitment to quality is not communicated.

##### **Recommendation**

The relevant officials must ensure that original certified copies are submitted and kept on the in the personnel files for all appointments.

#### **Management response**

#### **Auditor's conclusion**

#### **Governance matters**

## **20. Governance Committees: No Oversight Committee (EX.1)**

### **Audit finding**

#### **Requirement/Limitation:**

According to section 129(1) of the (MFMA) a council of a municipality must consider the annual report of the municipality and by no later than two months from the date on which the annual report was tabled in the council in terms of section 127, adopt an oversight report containing the council's comments on the annual report.

According to MFMA circular 32, it is recommended that councils consider the establishment of an oversight committee under sections 33 and 79 of the Municipal Structures Act 1998. This committee and, if needed, subcommittees could be responsible for the detailed analysis and review of the *annual report* and then drafting an *oversight report* that may be taken to full council for discussion. Such a committee may receive and review representations made by the public and also seek inputs from other councilors.

#### **Nature:**

Through our audit of governance structures of the municipality, and through discussions with the internal audit manager, it was confirmed that the Setsoto municipality does not have an oversight committee that could consider the annual report of the municipality as envisaged in terms of section 129(1) of the MFMA. Not considering the annual report (not completed) then it could be non compliance.

#### **Cause:**

Non-compliance to section 129(1) of the MFMA.

#### **Impact:**

No committee will receive and review representations made by the public and also seek inputs from other councilors that could enable the council to adopt and oversight report as envisaged in section 129(1) of the MFMA.

### **Internal control deficiency**

Leadership - oversight responsibility: the accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

### **Recommendation**

The council should consider establishing an oversight committee to that can analyse, review and receive presentations from the public on the annual report of the municipality.

### **Management response**

This communiqué serves to address the Auditor General's audit findings that were received by the PMS unit on the 22<sup>nd</sup> September 2010.

Upon receiving the report from Council, the Oversight Committee must accept adopting or rejecting the Annual Report. It should also do Key oversight role ensuring Executive and administration accountable for performance, which is also responsibilities of Performance Audit Committee.

Based on the above, the Council appointed Performance Audit Committee on the 31 March 2010, although the committee still needs two other members that were supposed to have been appointed already. The recruitment process has been concluded, awaiting the Municipal Manager to appoint those people.

### **Auditor's conclusion**

The finding is still valid as the Performance Audit Committee is not yet fully functional.

## 21. Audit committee: Committee did not effectively discharge its mandate (EX.11)

### Audit finding

#### Requirement/Limitation:

Section 166(2) of the MFMA stipulates that an audit committee is an independent advisory body which must:

- (a) Advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality on matters relating to: internal financial control and internal audits; risk management; accounting policies; the adequacy, reliability and accuracy of financial reporting and information; performance management; effective governance; compliance with the MFMA, the annual Division of Revenue Act (DoRA) and any other applicable legislation; performance evaluation; and any other issues referred to it by the municipality.
- (b) Review the annual financial statements to provide the council of the municipality with an authoritative and credible view of the financial position of the municipality, its efficiency and effectiveness and its overall level of compliance with this Act, the annual Division of Revenue Act and any other applicable legislation.
- (c) Respond to the council on any issues raised by the Auditor-General in the audit report.
- (d) Carry out such investigations into the financial affairs of the municipality as the council of the municipality may request.

#### Nature:

Contrary to the requirements of section 166(2) of the MFMA, the committee did not discharge its mandate, and does therefore not comply with the said section.

Contrary to the requirements of the Audit Policy paragraph 6, 7, 8 and 9 the Audit committee did also not adhere *inter alia* to the following requirements:

1. Review of the internal control procedures followed by management,
2. Review of the controls designed to ensure that assets are safeguarded,
3. Review of risk management and related policies,
4. Review of the Fraud prevention plan implemented to prevent and detect fraud,
5. Review of compliance with prescribed accounting framework,
6. Review of the audit plan with the external auditors to ensure that the audit will address any concerns of the councillors and directors,
7. Review of the external auditors' observations as presented in the management letter
8. Review of the adequacy of management responses,
9. Review of the effectiveness of internal audit.
10. The Audit Committee did not submit minutes of their meetings to the council.

#### Cause:

The shared audit committee with the Thabo Mofutsanyana District Municipality proved ineffective and the newly established audit committee did not convene regularly in order to perform the required tasks.

#### Impact:

Non-compliance with section 166(2) of the MFMA and non-adherence to the Audit Policy of the municipality causes the audit committee to fail to perform prescribed duties and functions effectively.

### Internal control deficiency

Governance - Audit committee that promotes independent accountability and service delivery: The audit committee did not fulfill its responsibilities as set out in legislation and in accordance with accepted best practice.

### Recommendation

Council should introduce measures that would ensure that the council receives effective and efficient service from the audit committee and have effective monitoring control over financial reporting. Non-compliance with section 166(2) of the MFMA and non-adherence to the Audit Policy of the municipality causes the audit committee to fail to perform prescribed duties and functions effectively.

### Management response

1. Review of the internal control procedures followed by management

The Internal Audit Unit (IAU) reviews the internal control procedures in terms of conducting audit and report the matter to the Audit Committee. Then the Audit Committee scrutinized the Internal Audit (IA) reports, and some of the IA findings appear on the reports were not responded and the Audit Committee took a resolution on the 10 May 2010 requesting Management to provide with answers. On the 14 May 2010, a letter was written to Accounting Officer to ensure that resolutions taken are implemented in terms of submission of IA responses and other matter.

This process shows that review was done on the system of internal controls applied by the municipality for the year under review. This was also illustrated on several occasions on the deficiencies in the system of internal controls and deviation that were reported by internal auditors. In certain instances the matters reported previously have not been fully and satisfactorily addressed. Therefore, a follow up will be made on quarterly basis through IA reports to ensure the adherences of the internal control procedures are done.

2. Review of the controls designed to ensure that assets are safeguarded

The Internal Audit Unit reviews the controls designed to ensure the safeguarding of assets and the outcome of their finding reveal that the controls are inadequate. Therefore, a follow up will be made on quarterly basis through IA reports to ensure that control are in place that will ensure safeguarding of municipality's assets.

3. Review of the risk management and related policies

Review of the risk management and related policies was not done as the IA Unit has indicated that they have used the 2008/2009 risks in terms of compilation of the IA coverage plan. Then we urge the management to speed up the process of ensuring there is risk management system in place and the human resource to implement the risk process, therefore the Audit Committee will be able to review and advice.

4. Review of the fraud prevention plan implemented to prevent and detect fraud,

This point goes hand in glove with risk management in point 3.

5. Review of compliance with prescribed accounting framework,

The Audit Committee has not been presented with the annual financial statements for review and discussion with the Accounting Officer before submission to Auditor General for auditing. However, review was done on the 31 August 2010 on the high level as requested by Chief Financial Officer and matter was communicated to him and Accounting Officer through email submitted.

6. Review of the audit plan with the external auditors to ensure that the audit will address any concerns of the councilors and directors,

This was not done as the invitation was not submitted. The matter will be discussed with the Accounting Officer.

7. Review of the external auditors' observations as presented in the management letter

Due to the circumstance beyond our control observation on the management letter was not done, however it will be done in the financial year 2010/2011 for the period of 2009/2010.

8. Review of the adequacy of management responses,

Review was done on the adequacy of management responses pertaining to the IA findings and Auditor General's findings. On the AG's responses, Audit Committee took a resolution that the management must redo responses submitted as it was not addressing the root cause and also on the IA, to respond their audit findings. A follow up will be done on quarterly basis on the status quo on the implementation of the AG management letter and whether responses are being submitted on the IA reports.

9. Review of the effectiveness of internal audit.

The Audit Committee requested the management to evaluate the effectiveness of the IAU as our appointment was on the third quarter and seating took place on the last quarter, then our request were based on that.

10. The Audit Committee did not submit minutes of their meetings to the council.

The minutes of 10 May 2010 will be submitted to the Executive Committee on 19 October 2010.

Based on the above mentioned matters, the Audit Committee will comply with MFMA and audit policy through the assistance of the Management as together we can advise Council accordingly.

**Auditor's conclusion**

As indicated by management, various actions are to be done. Therefore, the matter will still be reported during the current year and should be followed up in the 2010/2011 audit.

## **22. Audit Committee: No sufficient liaison with the council, management, internal and external auditors (EX.13)**

### **Audit finding**

#### **Requirement/Limitation:**

Section 166(3)(b) of the MFMA states that, in performing its functions, an audit committee must liaise with the internal audit unit of the municipality; and the person designated by the Auditor General to audit the financial statements of the municipality.

Section B, Paragraph 6.16 of the approved audit policy of the municipality stipulates that the Audit Committee should facilitate and promote communication between the Council, management and the internal and external auditors.

#### **Nature:**

Contrary to the requirements of Section 166(3)(b) of the MFMA, the audit committee did not effectively and sufficiently liaise with the persons as required by section 166(3)(b) the MFMA and their mandate throughout the year.

Only one Audit Committee meeting was held during the year, which was attended by the internal auditor, and no evidence was found regarding any liaison between the Audit committee and the AGSA.

#### **Cause:**

The audit committee did not pro-actively take action to ensure that they comply with applicable legislation and policies.

#### **Impact:**

Non-compliance with section 166(3)(b) and non-adherence to the audit policy of the municipality.

### **Internal control deficiency**

Governance - Audit committee that promotes independent accountability and service delivery: The audit committee did not fulfil its responsibilities as set out in legislation and in accordance with accepted best practice.

### **Recommendation**

The audit committee should invite the Auditor-General (AG) to its sittings or engage with the AG as and when required and so ensuring that regular communication occurs between the municipality and the AG.

Council should ensure that the audit committee effectively liaises with concerned parties.

### **Management response**

Noted, the Chairperson of the Audit Committee and the Accounting Officer will ensure that the office of the Auditor General is invited to all Audit Committee meetings that will take place. See attached a year plan schedule meetings. The Audit Committee will report on quarterly basis to Exco and finally those reports will be table to Council.

### **Auditor's conclusion**

Management is in agreement with the finding. Therefore, the matter will be reported during the current year and should be followed up in the 2010/2011 audit.

## **23. Audit Committee: Effectiveness not reviewed by Council (EX.23)**

### **Audit finding**

#### **Requirement/Limitation:**

It is recommend by the King II Report on corporate governance that the council needs to assess the effectiveness of the audit committee on a periodic basis. The responses to the following probing questions could provide guidelines that the council could use in its deliberations when replacing or rotating members.

#### **Nature:**

It was found that no review on the effectiveness of the audit committee was performed by Council during the 2009/10 year under review.

**Cause:**

Management does not have specific controls/measures in place to enable the review of the effective functioning by the committee.

**Impact:**

Failure to review the effective functioning by the committee could lead to risks not being identified.

**Internal control deficiency**

Oversight responsibility - The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

**Recommendation**

Council should introduce measures that would ensure that the effectiveness of the audit committee is reviewed on a periodic basis.

**Management response**

The performance report of the audit committee was submitted to Exco on the 26 October 2010; however the meeting was postponed to the 10th November 2010. Attached please find item no 28/10 that was tabled to Exco and this report will be submitted to the next Council meeting in terms of the section 166(2)(a) of the Municipal Finance Management Act so that the Audit Committee can then fulfill its legislative requirement of advising Council accordingly.

It was also agreed that the report will be tabled on quarterly basis to Council and this will assist the Council to review the effectiveness of the audit committee.

**Auditor's conclusion**

The information submitted was inspected. Submitted was the performance report of the audit committee to the municipal council for the year ended 30 June 2010.

In order to resolve the exception, the audit team should be submitted with documentation that proves that the Council has reviewed the effectiveness of the audit committee. To date, no such documentation was received, and therefore the matter remains to be reported.

**24. Council minutes: Non-adherence to Standing rules and orders (EX.34)**

**Audit finding**

**Requirement/Limitation:**

Standing rules and Orders, Chapter 2, Part 3, rule 13 stipulates:

13(1) A councillor or traditional leader who-

(a) is unable to attend a meeting must, at least six hours before the commencement of the meeting or hearing, lodge with the municipal manager an oral or written application for leave of absence from the whole or any part of the meeting or hearing concerned.

(2) A councillor or traditional leader who did not apply for leave of absence after that meeting or hearing, lodge with the municipal manager a written application for leave of absence from that meeting or hearing. Such a late application for leave of absence must-

(a) state the reasons for the late submission of the application.

(6) A councillor or traditional leader-

(a) who fails to apply in terms of sub-rule (1) or (2) and is absent from a meeting or hearing he or she is required to attend; or

(e) who did not sign the attendance register is deemed absent without leave from the meeting concerned.

(7) A councillor must pay to the council a fine equal to 10 per cent of that councillor's monthly salary, which fine must be deducted from the first next payment due to the councillor by the municipality.

**Nature:**

(a) Council, special meetings and EXCO meeting minutes from 1 July 2009 to 30 June 2010 were scrutinized and it was identified that certain councillors were reported absent without any reason stated on the minutes. Details are as follows:

SALARY NR.	COUNCILLO RS		DESIGN ATION	4- DEC- 09	1% OF MONTH LY SALARY	10- SEP-09	1% OF MONTH LY SALARY	5-JAN- 10	1% OF MONTH LY SALARY	1-SEP- 09	10% OF MONTHL Y SALARY	21- MAY- 10	1% OF MONTH LY SALARY	12- MAR- 10	1% OF MONTHL Y SALARY	2-FEB- 10	1% OF MONTHL Y SALARY	31- MAR- 10	1% OF MONTHL Y SALARY	25- MAY- 10	1% OF MONTH LY SALARY	TOTAL DUE
400240	TA Tsoaela	S	Councill or					Absent	972.55									Absent	972.55			1945.1
400474	ML Mthimkulu	S	Councill or											Absent	972.55							972.55
400475	MD Motsei	S	Councill or	Absent	972.55																	972.55
400478	RD Khopu	S	Councill or	Absent	972.55									Absent	972.55							1945.1
400480	ML Mzizi	S	Councill or											Absent	972.55							972.55
400488	MN Sefuthi	M	Councill or											Absent	972.55							972.55
400500	RS	M	Exco							Absent	1337.275			Absent	1337.275	Absent	1337.275					4011.825

SALARY NR.	COUNCILLO RS		DESIGNATION	4-DEC-09	1% OF MONTHLY SALARY	10-SEP-09	1% OF MONTHLY SALARY	5-JAN-10	1% OF MONTHLY SALARY	1-SEP-09	10% OF MONTHLY SALARY	21-MAY-10	1% OF MONTHLY SALARY	12-MAR-10	1% OF MONTHLY SALARY	2-FEB-10	1% OF MONTHLY SALARY	31-MAR-10	1% OF MONTHLY SALARY	25-MAY-10	1% OF MONTHLY SALARY	TOTAL DUE
	Lichakane		Mem																			
400505	KE Koalane	C	Councillor	Absent	972.55									Absent	972.55							1945.1
400582	KS Mokhuoane	S	Councillor			Absent	972.55											Absent	972.55			1945.1
400585	MM Maphisa	S	Councillor																			0
400588	WH Coetzer	S	Councillor															Absent	972.55			972.55
400604	CP Marwick	C	Councillor															Absent	972.55			972.55
400607	MJ Motsamai	C	Councillor			Absent	972.55					Absent	972.55									1945.1
400609	EP Strydom	M	Exco Mem											Absent	1337.275			Absent	1337.275	Absent	1337.28	2674.55
400610	TD Zim	M	Exco Mem																	Absent	1337.28	0
401196	BJ du Toit	F	Councillor															Absent	972.55			972.55
401158	M.C Nakasi	C	Councillor	Absent	972.55																	972.55
				4		2		1		1		1		8		1		5		2		24192.28

(b) No evidence that a written application for leave of absence from that meeting or hearing have been submitted to the municipal manager as stipulated on Standing Rules and Orders rule 13(2).

(c) The salary division have been visited and no evidence have been found that the councillors who have been absent from the meetings have paid to the council a fine equal to 10 per cent of that councillor's monthly salary, which fine must be deducted from the first next payment due to the councillor by the municipality unless that councillor had paid the fine in cash before such payment is made as stipulated on Standing Rules and Orders rule 13(7). According to our calculation, councillors owe the municipality approximately R24192 if a 10% penalty is calculated for all councillors who were absent without approval. Refer to table above for more details.

(d) The municipal manager did not keep a record of all cases in terms of sub-rule (6) and evidence that he submitted a written report thereon the speaker at least once during every three month period was not found on the council minutes as stipulated according to SRO rule 13(8).

**Cause:**  
Due to a lack of proper monitoring the Standing rules and orders were not adhered to and actions not taken during the leave of absence without a written notice.

**Impact:**

Non-compliance with standing rules and orders of the public office bearers.

Understatement of debtors of R24192

#### **Internal control deficiency**

The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

#### **Recommendation**

Steps should be taken to ensure penalties are recovered. The Speaker of the council must ensure that councillors follow the rules applicable on them and record any penalties on the minutes of the council when there absenteeism without approval by the council.

The accounting officer must ensure that the rules outlined in the orders are implemented to the letter and issue the reports timeously to the Speaker.

#### **Management response**

A level agreement was met between the Administration as Council and Exco secretariat and the Office of the Speaker who is liable for management of Political office bearers that after any Exco and Council sittings attendance registers of such will be send to the office of the Speaker to process compliance of the requirements of standing rules and orders, chapter 2, part 3, paragraph 13.

The following recommendations were brought up to the office of the Speaker to remedy the situation

That,

1. The office of the speaker put the stand that all Councillors will be notified about the current position pertaining to their scope of employment. In the nutshell, should the Councillors/he or she be absent without written application for absence. A penalty as stipulated in terms of standing rules and orders chapter 2, part 3 paragraph 13 shall be applied.
2. All Councillors must be sensitised over this audit finding

#### **Auditor's conclusion**

## **25. Governance Committees: Audit Committee not meeting at least four times a year as prescribed (EX.4)**

### **Audit finding**

#### **Requirement:**

Section 166(4)(b) of the (MFMA) prescribes that: "The audit committee must meet as often as is required to perform its functions, but at least four times a year".

#### **Nature:**

Contrary to section 166(4)(b) it was observed from the minutes that the audit committee convened only once which was on 10 May 2010.

#### **Cause:**

Thabo Mofutsanyana District Municipality, which includes the Setsoto Local Municipality, established an audit committee. However, management concluded that the shared audit committee is not effective and therefore an audit committee for the Setsoto Local Municipality was established, as per Council meeting of 17 February 2010.

#### **Impact:**

Non-compliance with section 166(4)(b) of the MFMA by the audit committee causes the committee failure to perform prescribed duties and functions effectively.

Failure by the audit committee to meet as prescribed and function effectively could cause the municipality to incur fruitless and wasteful expenditure in the form of expenditure incurred with respect to lesser meetings convened.

### **Internal control deficiency**

Governance - Audit committee that promotes independent accountability and service delivery: The audit committee did not fulfill its responsibilities as set out in legislation and in accordance with accepted best practice.

### **Recommendation**

Council should introduce measures that would ensure that the audit committee meets regularly in order to comply with the MFMA requirements.

### **Management response**

Due to lack of implementation in terms of Intergovernmental Relation by Thabo Mofutsanyana District Council, resulted in Setsoto Local Municipality establishing its own Audit Committee on the 17 February 2010. In the process of the establishment of the Audit Committee, the advertisement was drawn and interviews were held and the Council approved their appointment on the 31 March 2010 as per their delegated power.

Their appointments were effected on the 01 April 2010, which made them to hold only two meetings which one of their meetings falls under the new financial year of 2010/2011. A year plan meetings schedule was drawn that will guide members and council in terms of effectiveness of the Audit Committee meetings.

### **Auditor's conclusion**

Management comment accepted however due to the fact that the municipality did not comply with Section 166(4)(b) of the Municipal Finance Management Act for the 2009/2010 financial year the exception still stands.

## **26. Governance: Management does not respond or follow-up on internal audit findings (EX.39)**

### **Audit finding**

#### **Requirement/Limitation:**

The IAA standard 430 (Communicating results) state that internal auditors should report the results of their audit work and reports should be constructive.

The internal audit charter states that the internal audit unit must comply with the internal audit standards.

Section 62(c)(ii) of the MFMA states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of internal audit operating in accordance with any prescribed norms and standards.

**Nature:**

During inspection of the Internal audit yearly activity report, it was noted that the total number of the audit findings issued were 280. From the 280 findings issued, 190 were recurring audit findings from previous audits and 175 were audits not responded to by the Internal Audit Clients. Furthermore, overall recurring audit findings weighted 68% and those not responded to weighted 62% of the total audit findings for the year under review. Details thereof are:

NO	REF	ENTITIES MAJOR PROCESS NAMES	NO OF AUDIT FINDINGS	NUMBER OF RECURRENCES	% OF NUMBER OF RECURRENCES	NO OF AUDIT FINDINGS NOT RESPONDED	% OF AUDIT FINDINGS NOT RESPONDED
1.	B30	Expenditure Management	68	40	58	45	66.2
2.	B35	Information Technology Management	8	0	0	5	62.5
3.	B40	Human Resource Management	54	22	40.7	35	64.8
4.	B45	Cash Management	35	30	85.7	27	77
5.	B50	Service Rendered	37	29	78	26	70.3
6.	B55	Credit Control Management	9	9	100	5	55.6
7.	B60	Assets Management	26	17	65	11	42
8.	B75	Financial Control/treasury	0	0	0	0	0
9.	B80	Occupational Health and Safety	43	43	100	21	48.8
Total			280	190	68	175	62.5

**Cause:**

Management of the municipality does not take responsibility of the weaknesses within their departments and does not make an effort to correct it.

**Impact:**

Non-compliance with section 62(c)(ii) of the MFMA due to the fact that the internal audit unit does not comply with the IAA standards.

**Internal control deficiency**

Oversight responsibility - The accounting officer / accounting authority does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

**Recommendation**

The accounting officer should ensure that management responds to internal audit findings and correct the weaknesses identified.

**Management response**

No management response received.

**Auditor’s conclusion**

Since no response from management was received, the matter is reported as it is.

**Financial statements**

## 27. Going concern factors (EX.51)

### Audit finding

The accounting officer must ensure in terms of section 64(2) of the MFMA that the municipality has effective revenue collections systems that are consistent with the Municipal Systems Act and the Municipal Credit Control and Debt Collection policies. Also, in terms of section 65(2) should ensure that all monies owing by the municipality be paid within 30 days subject to certain exemptions.

#### 1. Current and Acid Ratio:

We calculated the current and acid ratio which purpose is to highlight an entity's ability to honour all commitments now or in the future with existing current assets that could be converted in cash flows for the municipality. We noted that the current ratio of the municipality is below the industry norm of 1:1 which is normally indicative of cash flow problems with an entity at 0.82. Details of the calculation are as follow:

(Current assets (R77 434 987) - Inventory (R1 281 881) / Current Liabilities (R93 038 306).

#### 2. Creditors payment period:

According to the calculation, the payment period has improved from 320 to 305 days. However, this is still not within the norm of thirty days. Details of the calculation are as follow:

Accounts payable (R18 459 238) / Credit purchases/365 (R60 504.91).

#### 3. Non-current and total assets over turnover:

A increase in ratio from 24.68 to 27.17 on non-current assets (R88 302 995 sales/service charges / R324 964 698 noncurrent assets at carry value) and increase from 19.56 to 21.94 on total assets over turnover (R88 302 995 sales/service charges / R402 399 683 total assets) could be attributed to sufficient sales are being generated per each R1 invested in non-current assets. However, as there is also a decrease in non-current assets, and this could indicate a negative indication that assets are aging and are not being replaced with new assets.

#### 4. Average debtors' collection period;

There is a decrease of 29.92% for trade debtors (R79 466 357 to R55 690 011) as compared to the previous year, which also decreased the repayment period of debt to 355 days from 230 days. The collection period is however still regarded as not up to standard especially with the provision for doubtful debts increased from R122 465 793 to R181 116 706 during the financial year under review.

#### 5. The following going concern risk factors were also identified:

- Cash and cash equivalents according to the statement of financial position deteriorated further by 11.69% from a overdrawn account of R18 075 933 in 2008/09 to R20 189 599 million in the year under review.
- Gross balances of trade and other receivables from exchange transactions increased by 17.06% to R234 762 662.
- Provision for bad debt increase by 47.89% from R122 465 793 to R181 116 706,
- The accumulated surplus according to the statement of changes in net assets decreased from R314 186 635 to R288 112 897 during the financial year under review.

There is not a policy framework in place dealing with the assessment and the disclosure of the going concern risks.

The municipality is subjected to going concern factors which can affect the financial situation of the municipality.

### Internal control deficiency

Financial and performance management: quality, reliable monthly financial statements and management information -

Management and staff do not fulfill their duties and responsibilities. There is not a policy framework in place dealing with the assessment and the disclosure of the going concern risks.

### Recommendation

A framework should be put in place to ensure that the going concern concept is properly evaluated and considered. The financial statements should be adjusted to properly disclose the going concern risks that the municipality is subjected to.

### Management response

### Auditor's conclusion



## Immovable assets

### 28. SCM: Fruitless and wasteful expenditure on new additions (EX.103)

#### Audit finding

##### Requirement/Limitation:

In terms of section 78(1) of the MFMA each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that the assets are managed effectively and that it is safeguarded and maintained.

Section 62(1)(d) states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that fruitless and wasteful expenditure is prevented.

As per MFMA definitions, fruitless and wasteful expenditure mean expenditure that was made in vain and would have been avoided had reasonable care been exercised.

##### Nature:

Through performance of our audit procedures on asset acquisitions, the following issues were identified:

1) Payments were made for work completed, but inspection thereof revealed that it has already been damaged or materials stolen:

DATE	GENERAL LEDGER AMOUNT R	CHEQUE NUMBER	DESCRIPTION	CONTRACTOR / VENDOR
2009/10/02	13 090,00	K6592	Toilets structures	Mr W Vries
2010/01/29	29 134,92	K8360	Toilets structures	Mr W Vries
<b>TOTAL</b>	<b>42 224,92</b>			

2) A deposit was made for services to be rendered, but the supplier since disappeared with the money:

DATE	GENERAL LEDGER AMOUNT R	CHEQUE NUMBER	DESCRIPTION	CONTRACTOR / VENDOR
2010/06/03	60 840,00	K9969	Deposit on Posmate III pressure seal machine	Vic computers & stationers

It was also noted that a payment for R131 150,00 was made on 22/10/2010 with regards to this project (2010/2011 financial year transaction).

##### Cause:

Management does not ensure that value is received for payments made, that assets are sufficiently maintained and that vendors are reliable before any payments are made.

##### Impact:

Management incurred expenses that could have been avoided had reasonable care been exercised.

The total fruitless and wasteful expenditure for the current year is R103 064,92. But extrapolated over the population of assets verified, the misstatement amounts to R283 428,53

##### The calculation thereof is as follows:

Factual error = R103 064,92

Total number of items in the sample = 52

Total number of items in the population = 143

Therefore,  $143/52 \times R103\,064,92 = R283\,428,53$

##### Internal control deficiency

Leadership - Decisive action to: mitigate emerging risks, implement timely corrective measures and address non-performance:  
Control weaknesses are not analysed, and appropriate follow-up actions are not taken that address root causes.

**Recommendation**

Management should ensure that value is received for payments made, that assets are sufficiently maintained and ensure that vendors are reliable before any payments are made.

Fruitless and wasteful expenses must be disclosed for the current year.

Efforts should be made to have the items repaired or replaced after establishing whether the damage has been caused by negligence or not, the amount paid as a deposit should be disclosed as a debtor and recovered from the supplier.

**Management response**

No management response received.

**Auditor's conclusion**

Since no response from management was received, the matter is reported as it is.

## 29. SCM: Non-compliance during acquisition of assets (EX.127)

### Audit finding

#### Requirement/Limitation:

Section 62(1)(d) of the MFMA states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that irregular expenditure are prevented.

In terms of section 19 of the MFMA, a municipality may only spend money on a capital project if such money has been appropriated in the capital budget of the municipality.

Furthermore, section 116(2)(a) of the MFMA requires for an accounting officer to take all reasonable steps to ensure that a contract or agreement procured through the supply chain management policy of the municipality is properly enforced

Regulation 17(4) of the Preferential Procurement Regulations, 2001, requires that a municipality must ensure that specific goals of a contract must be measurable and quantifiable and must monitor the execution of the contract for compliance with such goals

Section 19(1) of the municipal SCM policy requires that a competitive bidding process be followed for transactions above R200 000.

#### Nature:

During the performance of audit procedures on the acquisition of assets, the following non-compliance with supply chain management requirements were identified:

Contrary to section 116(2) of the MFMA, the accounting officer did not monitor and enforce the conditions of the following contracts:

a) Through inspection of the site we observed that the construction activity was not up to date and has been delayed for a while at the time of the site visit. Payment made to the firms has been made in contravention with the conditions of the contract which has been awarded in terms of section 20 of the municipal SCM policy.

DATE	CHEQUE NUMBERS	DESCRIPTION	CONTRACTOR / VENDOR	TOWN	PURCHASE AMOUNT R
2009/10/09	K6648	Construction of sewer pump station	Kinek CC	Senekal	274 476,03
2010/03/31	K9136	Construction of sewer pump station	Kinek CC	Senekal	205 830,01
<b>Total</b>					<b>480 306,04</b>

2) Contrary to section 19 of the MFMA the following payments were made which do not appear on the capital budget of the municipality.

DATE	CHEQUE NUMBERS	DESCRIPTION	CONTRACTOR / VENDOR	SOURCE	TENDER NUMBER	PURCHASE AMOUNT R
2010/04/08	K9173	Hlohlolwane Install water meters	Isa & Partners	Grant capital	MIG/FS/0583/W/06/08	479 254,05
2010/04/08	K9172	Moemaneng Install water meters	Isa & Partners	Grant capital	MIG/FS/0584/W/06/08	410 429,27
<b>Total</b>						<b>889 683,32</b>

3) The progress report information indicates that the requirements per contract conditions are not achieved. Since payments are continued to be made on the project, it is concluded that no action is taken on the non-compliance. The tender conditions required that woman and disable persons should be employed but according to the progress reports these has not been adhered to. This is contrary to section 116(2) of the MFMA and regulation 17(4) of the Preferential Procurement Regulations; refer to the relating payments made:

DATE	CHEQUE NUMBERS	DESCRIPTION	CONTRACTOR / VENDOR	TOWN	TENDER NUMBER	PURCHASE AMOUNT R
2009/12/03	K7566	Construction of pump station	Ike metal works	Senekal	(Phase 2-6) (07/08)	97 818,30
2009/10/09	K6648	Construction of sewer pump station	Kinek CC	Senekal	(Phase 2-6) (07/08)	274 47603

DATE	CHEQUE NUMBERS	DESCRIPTION	CONTRACTOR / VENDOR	TOWN	TENDER NUMBER	PURCHASE AMOUNT R
2010/03/31	K9136	Construction of sewer pump station	Kinek CC	Senekal	(Phase 2-6) (07/08)	205 830,01
2009/12/23	K7816	Construction of pump station no.3	New Generations Ready mix	Senekal	(Phase 2-6) (07/08)	19 274,02
2010/06/14	K0022	Construction of sewer pump station	Seabo Construction	Senekal	(Phase 2-6) (07/08)	115 377,53
2009/09/11	K5694	Marquard upgrade oxidations ponds	Big Bravo Construction	Moemaneng	MIG/FS/0448/07/09 T02 (08/09)	636 299,99
2009/07/31	K7112	Marquard upgrade oxidations ponds	Macneil Distributors	Moemaneng	MIG/FS/0448/07/09 T02 (08/09)	476 434,26
2010/03/17	K8892	Marquard upgrade oxidations ponds	MP Construction		MIG/FS/0448/07/09 T02 (08/09)	121 271,40
2009/09/10	K6132	Matwabeng storm water drainage	Pro-Care Civils	Matwabeng	MIG/FS0447/S/07/09 T03 (08/09)	331 500,54
2010/03/24	K8937	Matwabeng storm water drainage	Pro-Care Civils		MIG/FS0447/S/07/09 T03 (08/09)	849 987,83
2010/04/01	K9145	Matwabeng water reticulation (SDR)	Pro-Care Civils	Matwabeng	MIG/FS0447/S/07/09 T03 (08/09)	1 184 144,68
2009/09/14	K6160	Construction of sewer network	Karolo ya safrika	Moemaneng	T17A (06/07)	54 475,33
2010/05/20	K9661	Bucket eradication	Karolo ya safrika	Moemaneng	T17A (06/07)	50 034,62
2010/05/27	K9743	Construction of sewer pump station (materials)	Dumansi Trading CC	Moemaneng	T17B (06/07)	87 152,10
2010/06/22	K0068	Material MAQ pump station No.2	Dumansi Trading CC	Marquard	T17B (06/07)	75 157,17
2010/06/14	K0023	Construction of sewer network (toilets completed)	Karolo ya safrika	Moemaneng	T17B (06/07)	370 062,14
2009/10/02	K6592	Toilets structures	Mr W Vries	Ficksburg	TO 5 (06/07)	13 090,00
2010/01/29	K8360	Toilets structures	Mr W Vries	Ficksburg	TO 5 (06/07)	29 134,92
					TOTAL	4 991 520,87

4) A competitive bidding process was not followed for the following payment above R200 000 which is contrary to section 20 of the municipal SCM policy:

DATE	CHEQUE NUMBERS	DESCRIPTION	CONTRACTOR / VENDOR	PURCHASE AMOUNT R
2010/02/05	K8426	Raw water pump at Caledon river intake	Leican Engineering CC	399 671,00

**Cause:**

Management does not identify contraventions to the tender contracts and regulations and/or does not take action when it is identified.

**Impact:**

(1) Unauthorised expenditure of R889 683,32 was incurred and the error is projected at the value of the contract, which is R1 095 547,83

Section 19 = R1 095 547,83

The calculation thereof is as follows:

Tender no	Tender Amount R
MIG/FS/0583/W/06/08	593 113,04

MIG/FS/0584/W/06/08	502 434,79
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(2) Irregular expenditure of R5 871 497,91 is identified owing to the non adherence to the SCM policy and MFMA. When extrapolated over the population, the misstatement amounts to R42 179 932,75. Details were extrapolated as follows:

Section 20 = R399 671, which is the value of the payment.

Section 116(2) = R480 306,04 and the projected error is the value of the contract, which is R2 240 973

Section 116(2) and 17(4) = R4 991 520,87, projected to R39 539 288,75. The extrapolated amount is calculated as follows, since the payments all related to the listed tenders:

TENDER NUMBER	TENDER AMOUNT R
(Phase 2-6) (07/08)	1 131 193,88
(Phase 2-6) (07/08)	2 240 973,00
(Phase 2-6) (07/08)	1 002 765,75
MIG/FS/0448/07/09 T02 (08/09)	12 932 002,39
MIG/FS0447/S/07/09 T03 (08/09)	8 901 298,46
T17A (06/07)	6 455 068,92
TO 5 (06/07)	6 875 986,35
	39 539 288,75

#### Internal control deficiency

Leadership - Oversight responsibility: The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

#### Recommendation

The accounting officer should disclose all irregular expenditure and implement measures to ensure compliance with SCM regulations.

#### Management response

No management response received.

#### Auditor's conclusion

Since no response from management was received, the matter is reported as it is.

### 30. LED Projects: Deed of trust for the Meqheleng Peach Project (EX.52)

#### Audit finding

##### Requirement/Limitation:

Council resolution 23/3 of 4 April 2006 requires the board of trustees should 3 members with the municipal manager. The Trust Property Control Act, 1988 (Act 57 of 1988) requires the current trustees to be reflected in the Deed of Trust.

##### Nature:

No evidence could be provided that Mr. Mthembu, the newly appointed Municipal Manager, was appointed on the Board of Trustees of the Meqheleng Peach Trust, as required by Council resolution 23/3 of 4 April 2006. It was further noted that although, Mr Makelelane, Mr. Momooe and Me. Mofokeng are no longer trustees in terms of above mentioned Council resolution, they are still the only authorized trustees in terms of the Trust Property Control Act, 1988 (Act 57 of 1988).

No information on the composition of the members of the trust and their appointment by the Master of the High Court was received.

Shortcomings with regards to the mandatory documents on this project were also reported in the 2006/07, 2007/08 and 2008/09 financial years and not addressed to date.

**Cause:**

Management does not ensure that the legal requirements of the Trust Property Control Act, 1988 (Act 57 of 1988) are met.

**Impact:**

Non compliance with requirements of Trust Property Control Act, 1988 (Act 57 of 1988)

**Internal control deficiency**

Oversight responsibility - The accounting officer / accounting authority does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

**Recommendation**

Management should ensure that Mr. Mthembu is appointed as a member of the Board of Trustees.

The necessary action should be taken to ensure that the Deed of Trust for the Meqheleng Peach Trust reflects the appointment of newly appointed trustees.

**Management response**

A memorandum was prepared that will be submitted to council for the name change from the former municipal manager to the current

**Auditor's conclusion**

The agenda for the Socio Economic Development Meeting of 16 November 2010 was supplied to the audit team. As per this agenda, the current municipal manager (Mr B. Mthembu) will replace the municipal manager stated on the Deed of Trust for the Meqheleng Peach Project (Mr T.J. Makelelane).

However, the two members authorized in terms of the Trust Property Control Act no longer serve as trustees. Therefore the exception remains to be communicated.

**31. LED projects: Meqheleng Peach Project: Trust deed duties not performed (EX.53)**

**Audit finding**

**Requirement/Limitation:**

The Deed of Trust of the Meqheleng Peach Project imposed the following duties on the trustees:

- 1) Keep complete and accurate records of all receipts, expenditures, assets and liabilities of the Trust;
- 2) Prepare annual financial statements in accordance with generally accepted accounting practice;
- 3) If required, appoint a practicing Chartered Accountant to act as auditor of the Trust;
- 4) Ensure that records and books mentioned above are at all times available for inspection by the beneficiaries;
- 5) Money received by the Trustees in their capacity as Trustees, must be deposited in a separate bank account;
- 6) Trustees must perform their duties and exercise their power with care, diligence and skill which can reasonably be expected from a person who manages the affairs of other; and
- 7) The Trustees are obliged to apply income and capital of the Trust for the maintenance, comfort, education, advancement, general well-being or training of one or more of the Beneficiaries.

**Nature:**

Despite the fact that Me. Molete (Director of Economic & Community Services) were involved in the establishment of the Board of Trustees, no documentation could be provided for audit purposes in this regard.

In exception 56 of the previous year it was reported that these shortcomings were also reported for the past three financial years.

**Cause:**

The Council is not fulfilling its mandate to assist the community in economic development.

**Impact:**

Income and capital of the Trust are not used for the maintenance, comfort, education, advancement and general well-being or training of one or more of the beneficiaries.

**Internal control deficiency**

Financial and performance management - Proper record keeping and record management; the documents supporting the above are properly filed and easily retrievable: Requested information was not available and supplied without any significant delay.

**Recommendation**

This information as required should be obtained as a matter of urgency and submitted for audit purposes. If any of these documents or information could not be submitted for the auditing thereof, the reasons should be identified and forwarded for audit purposes. The trustees should be educated to what their responsibilities are and ensured that all the requirements of the Deeds of Trust for the Meqheleng Peach Project are met.

**Management response**

As per your paragraph "Requirement/Limitations" the project has not been handed over to the beneficiaries and thus no separate set of books is available as explained during our meeting of 21 October 2010 in the MM's boardroom. Once the project is handed over, the necessary assistance will be given to the beneficiaries.

**Auditor's conclusion**

Since the assets are part of municipal assets to date, the control over the project remains a risk of the municipality. Therefore, the matter will still be reported during the current year and should be followed up in the 2010/2011 audit.

**32. PPE: Property on the valuation roll could not be traced to the asset register (EX.61)**

**Audit finding**

**Requirement / Limitation:**

Section 63(2)(a) of MFMA prescribes that the accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure that the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality.

**Nature:**

According to the assets register and note 8.1 to the financial statements, the value for land amounted to R19 985 901 at year end. For selected items from the valuation roll, none of the properties could be traced to the assets register. The assets could not be found in the assets register using assets number and description. The valuation roll indicates market value, while the asset register is still valued at cost price. Due to Directive 4, the municipality does not have to value assets at market value yet. Details thereof are:

NO	PROPERTY NO.	SUBURB	ERF NO	PORTION	SUB PTN	UNIT	CATEGORY	EXTENT	MARKET VALUE R
1	822	CLOCOLAN TOWNLANDS	00000040	00016	0000	000	MUNICIPAL	253,5153	380,000,00
2	1185	BLECHMAN (CLOCOLAN)	00000432	00000	0000	000	VACANT/MUNICIPAL	0,0300	1,000,00
3	2987	FICKSBURG'S DORP GRONDEN	00000075	00000	0000	000	MUNICIPAL	780,9106	1,310,000,00
4	2993	FICKSBURG'S DORP GRONDEN	00000075	00021	0000	000	MUNICIPAL	800,0000	1,200,000,00
5	3001	FICKSBURG'S DORP GRONDEN	00000075	00064	0000	000	VACANT/MUNICIPAL	11,2611	39,000,00
6	3005	FICKSBURG'S DORP GRONDEN	00000075	00071	0000	000	VACANT/MUNICIPAL	24,3080	73,000,00
7	3014	ANNA MARIA MILL (FICKSBURG)	00000076	00000	0000	000	VACANT/MUNICIPAL	12,8072	45,000,00
8	8232	DELVILLE WOOD (MARQUARD)	00000083	00006	0000	000	VACANT/MUNICIPAL	10,0000	35,000,00
9	8258	VIS-À-VIS (MARQUARD)	00000094	00000	0000	000	VACANT/MUNICIPAL	0,0000	40,000,00
10	8711	MARQUARD TOWN LANDS	00000426	00018	0000	000	VACANT/MUNICIPAL	6,0577	24,000,00
11	28773	ZYFER FONTEIN (SENEKAL)	00000246	00004	0000	000	MUNICIPAL	96,3807	250,000,00
12	28822	DE PUT (SENEKAL)	00000298	00049	0000	000	VACANT/MUNICIPAL	45,5181	140,000,00
13	28832	DE PUT (SENEKAL)	00000298	00067	0000	000	VACANT/MUNICIPAL	33,6943	100,000,00
14	1255	FICKSBURG	00000012	00006	0000	000	VACANT/MUNICIPAL	0,0014	100,00
15	1399	FICKSBURG	00000073	00001	0000	000	VACANT/MUNICIPAL	0,0021	100,00
16	1600	FICKSBURG	00000145	00001	0000	000	VACANT/MUNICIPAL	0,0024	100,00
17	1719	FICKSBURG	00000193	00000	0000	000	VACANT/MUNICIPAL	0,0024	100,00
18	1826	FICKSBURG	00000228	00002	0000	000	VACANT/RESIDENTIAL	0,1487	100,000,00
19	1924	FICKSBURG	00000273	00001	0000	000	VACANT/MUNICIPAL	0,1487	30,000,00
20	2028	FICKSBURG	00000324	00001	0000	000	VACANT/MUNICIPAL	0,0024	100,00

NO	PROPERTY NO.	SUBURB	ERF NO	PORTION	SUB PTN	UNIT	CATEGORY	EXTENT	MARKET VALUE R
21	2096	FICKSBURG	00000355	00000	0000	000	RESIDENTIAL	0,2231	50,000,00
22	2169	FICKSBURG	00000389	00000	0000	000	VACANT/MUNICIPAL	0,4461	1,200,000,00
23	2237	FICKSBURG	00000438	00000	0000	000	VACANT/MUNICIPAL	0,6559	70,000,00
24	2353	FICKSBURG	00000780	00001	0000	000	VACANT/MUNICIPAL	0,0024	100,00
25	2629	FICKSBURG EXT 006	00000631	00000	0000	000	VACANT/MUNICIPAL	0,8922	40,000,00
26	2720	FICKSBURG EXT 020	00000794	00000	0000	000	VACANT/MUNICIPAL	0,1520	150,000,00
27	2743	FICKSBURG EXT 020	00000817	00000	0000	000	VACANT/MUNICIPAL	0,2156	100,000,00
28	2785	FICKSBURG EXT 021	00000865	00000	0000	000	VACANT/MUNICIPAL	0,1748	30,000,00
29	2795	FICKSBURG EXT 021	00000875	00000	0000	000	VACANT/MUNICIPAL	0,1800	30,000,00
30	2805	FICKSBURG EXT 021	00000885	00000	0000	000	VACANT/MUNICIPAL	0,1099	30,000,00
31	2815	FICKSBURG EXT 021	00000895	00000	0000	000	VACANT/MUNICIPAL	0,1306	30,000,00
32	2825	FICKSBURG EXT 021	00000905	00000	0000	000	VACANT/MUNICIPAL	0,1950	30,000,00
33	2839	FICKSBURG EXT 024	00000956	00000	0000	000	VACANT/MUNICIPAL	0,2734	30,000,00
34	2849	FICKSBURG EXT 024	00000966	00000	0000	000	VACANT/MUNICIPAL	0,1931	30,000,00
35	2859	FICKSBURG EXT 025	00000978	00000	0000	000	VACANT/MUNICIPAL	0,5284	30,000,00
36	2869	FICKSBURG EXT 025	00000988	00000	0000	000	VACANT/MUNICIPAL	2,1929	30,000,00
37	2879	FICKSBURG EXT 025	00000998	00000	0000	000	VACANT/MUNICIPAL	0,3901	30,000,00
38	2889	FICKSBURG EXT 025	00001008	00000	0000	000	VACANT/MUNICIPAL	0,2408	30,000,00
39	2899	FICKSBURG EXT 026	00001028	00000	0000	000	VACANT/MUNICIPAL	7,8950	30,000,00
40	2464	FICKSBURG (CALEDONPARK)	00000976	00067	0000	000	RESIDENTIAL	0,0259	20,000,00
<b>Total</b>									<b>5 757 600</b>

**Cause:**

Asset descriptions in the asset register are not sufficient to clearly identify properties.

**Impact:**

The completeness of the assets values according to the fixed assets register could not be verified. Note

The error is projected as follows:

Total property value in sample	5 757 600	
--------------------------------	-----------	--

Total value of property (reconciliation)	56 610 150	
Value of municipal land (note 8.1)	19 985 901	
Error value in sample	5 757 600	10%
<b>Projected Error (municipal land)</b>		<b>2 032 688,90</b>

**Internal control deficiency**

Decisive action to mitigate emerging risks, implement timely corrective measures and address non performance - Actions are not taken to address risks relating to the achievement of complete and accurate financial and performance reporting.

**Recommendation**

Management is required to ensure that all property registered in the name of the municipality is included on the assets register.

**Management response**

Management will ensure that all properties is registered in the Setsoto Municipality name and captured in the asset register. This will only be done after the approval of the asset register and after the housing department verify the properties as correct in Setsoto name.

**Auditor's conclusion**

Management is in agreement with the finding and therefore the matter will be reported. This should be followed up during the 2010/2011 audit.

### 33. LED projects: Nursery project (Ficksburg) (EX.65)

#### Audit finding

##### Requirement / Limitation:

Section 62(1)(b) of MFMA prescribes that the accounting officer for a municipality is responsible for managing the financial administration of the municipality and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norm and standards.

In terms of paragraph 11 of GRAP 17 – Property, plant and equipment assets is recognised only when it is probable that future economic benefits or service potential associated with the item will flow to the entity and that the cost or fair value of the item can be measured reliably.

##### Nature:

This matter was also included in paragraph 15 of the 2008/2009 Management Letter (and in the previous three year's management letters and audit reports) and indicated several weaknesses relating to the Nursery project. Through inspection of the general ledger accounts it was found that no money was spent on this project for the year under review. All expenses were incurred in the previous years. A total amount of R644 816 was paid to several contractors for the establishment of a nursery.

The following unresolved issues pertaining to this amount of R644 816 from the previous year have been identified and result in a limitation on the extent to which the audit procedures could be performed:

- a. The ledger account of R199 025 differed by R115 841 when compared to a schedule prepared by management of R83 184.
- b. There was VAT error already in 2004/05 of R12 506 that is understating this amount.
- c. Reasons why the DORA report in terms of DORA 2006 were still not submitted to the council, the treasury and the auditor general.
- d. The componentisation of this amount of R644 506 has still not been completed. In this regard, Directive 4 exempts measurement until next year.

Through discussions with Ms Brenda Monare on 12 October 2010, she confirmed that the situation did not change from the previous year.

##### Cause:

Lack of adequate responsibility of management to implement sufficient controls surrounding the administration of the projects and the payment of Local Economical Development Funds.

##### Impact:

The value per asset register and annual financial statements is misstated by R95 690 (R12 506 plus the unresolved difference of R115 841).

This could result in a misstatement of the property, plant and equipment on the projects at financial year-end.

#### Internal control deficiency

Operational – Directive, preventive and detective controls are not adequate and focused on achieving efficient resource usage and effectiveness, as measured by the extent to which specific control objectives are achieved

#### Recommendation

This matter should now be followed up in order to ensure the prior audit report matters are resolved.

The following should be obtained and submitted for audit purposes:

- Details of the total expenditure on the project as compared to the total value of the assets at year-end
- Reasons for deviation, if any
- Reasons for not reporting on the project in terms of DORA.

#### Management response

No management response received.

**Auditor's conclusion**

Although the assets related to the project is still in the name of the municipality, no revenue is or will be generated from it. If the project is functioning well, it will be under the control of the beneficiaries and ownership will eventually be transferred to them.

Based on this, a conclusion was reached that the assets should not be recognised by the municipality, resulting in the Property, plant and equipment balance to be overstated. Directive 4 does not apply, since this is a recognition issue and not a measurement problem.

The overstated amount is included in the extrapolated amount in exception 62.

The misstatements and limitation of scope remains to be communicated.

Since no response from management was received, the matter is reported as it is.

#### **34. PPE: MIG grants by the Thabo Mofutsanyana District municipality, expenditure not capitalised (EX.74)**

##### **Audit finding**

###### **Requirement / Limitation:**

Section 63(2)(c) of MFMA prescribes that the accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed.

In terms of paragraph 22 of *GRAP 17: Property, plant and equipment*, where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

###### **Nature:**

According to the MIG summary register of the Thabo Mofutsanyana District Municipality, the Thabo Mofutsanyana District municipality funded R3 583 273,42 expenditure during 2008 and 2009 regarding the Moemaneg (Marquard) 1,7 km Road Paving (MIS:151666).

Inspection of the fixed asset register revealed total capitalisation for roads and storm water in Marquard at R1 081 334,01 during 2008 and 2009. This results in an understatement of R2 501 939,41 of Plant, property and equipment in the assets register and financial statements at 30 June 2010.

###### **Cause:**

The asset register is not sufficiently updated.

###### **Impact:**

Assets in the assets register and on the financial statements are understated

This is an anomalous misstatement and therefore the error will not be projected to the rest of the population.

##### **Internal control deficiency**

Decisive action to: mitigate emerging risks, implement timely corrective measures and address non performance - Actions are not taken to address risks relating to the achievement of complete and accurate financial and performance reporting.

##### **Recommendation**

Management should ensure that the assets register, and annual financial statement is complete, or supply the audit team with evidence that the transactions were recorded.

##### **Management response**

No management response received.

##### **Auditor's conclusion**

Since no response from management was received, the matter is reported as it is.

**35. Wasteful expenditure: Inequality work for project Raw water in Marquard (EX.99)**

**Audit finding**

**Requirement/Limitation:**

Section 32(4) of the MFMA, Act No. 56 of 2003, states that the accounting officer must promptly inform the mayor, the MEC for local government in the province and the Auditor-General, in writing of -

- (a) any unauthorized, irregular or fruitless and wasteful expenditure incurred by the municipality;
- (b) whether any person is responsible or under investigation for such unauthorized, irregular or fruitless and wasteful expenditure; and
- (c) the steps have been taken to recover such expenditure and to prevent a recurrence of such expenditure.

**Nature:**

During an EXCO meeting dated 23 February 2010 management was requested to conduct an investigation of the project of raw material in Marquard where money are paid for inequality work to that project whereby more than 2 million was paid to the service provider 24 TM Bokamosa.

During an enquiry from the office of the Chief Financial Officer and the Internal Audit Manager on 4 November 2010 this report could not be obtained for audit purposes. This expenditure is therefore considered to be of a fruitless and wasteful nature if an investigation was not done. This matter has also not been reported to the Mayor and the Auditor-General according to the requirements of section 32(4) of the Municipal Finance Management Act. Details thereof are:

NAME	DATE	AMOUNT R
24 TM Bokamoso	01/12/2009	736 802,87
24 TM Bokamoso	23/12/2009	754 150,26
Cool Ideas	15/12/2009	92 222,65
Artcon Construction	07/12/2009	353 186,82
Incleodon-DPI	01/12/2009	1 051 447,43
<b>Total:</b>		<b>2 987 810,03</b>

**Cause:**

Adequate project monitoring not in place.

**Impact:**

Non compliance with section 32(4) of the MFMA. Possible fruitless and wasteful expenditure if an investigation was not done.

**Internal control deficiency**

Decisive action to: mitigate emerging risks, implement timely corrective measures and address non performance - Actions are not taken to address risks relating to the achievement of complete and accurate financial and performance reporting.

**Recommendation**

The report on the progress of raw material in Marquard as requested by the Council and EXCO should be submitted for audit purposes. Reasons should also be supplied why this expenditure should not be regarded as fruitless and wasteful.

**Management response**

**Auditor's conclusion**

## Inventory

### 36. Inventory: No approved policy and procedures (EX.25)

#### Audit finding

##### Requirement/Limitation:

Section 63(2) (c) of the MFMA requires that the accounting officer must ensure that the municipality has and maintains a system of internal control of assets, as may be prescribed.

##### Nature:

In exception 8 of the previous financial year it was reported that an approved policy that regulates the policies and processes with regard to inventory still does not exist. Mr. Lekhalanyane further stated that only a draft policy was available and it has not yet been approved by the council.

In its comment it was stated that the Municipality shall draft and table an Inventory policy during the financial year 2009/10 for tabling to Council for adoption.

During the discussions with the Chief Financial Officer, Mr Mabuya on 2 September 2010 it was found that the municipality has not yet approved Inventory policy.

##### Cause:

Due to a lack of proper monitoring reported matters and control deficiencies with regard to inventory are not corrected timeously by management.

##### Impact:

In the absence of policies and procedures for inventory it may be misappropriated.

#### Internal control deficiency

Oversight responsibility - The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

#### Recommendation

An inventory policy that answers the following issues, which serves as examples, should be compiled and implemented;

1. Identification of Inventory.
2. Acquisition (ordering) procedures.
3. Procedures during the useful life of Inventories.
4. Procedures at the end of the useful life of Inventories.
5. AFS disclosure requirements.

You are also encouraged to consider the Treasury issued GRAP implementation guide and the requirements of GRAP 12: Inventories when compiling this policy

#### Management response

Inventory policy has been drafted but it has not yet been approved by the council. Enclosed herewith is the copy of the Draft Inventory policy.

#### Auditor's conclusion

The Draft Inventory policy has been noted, however, the exception will remain until the council approve the inventory policy. It is the second year it was promised that a policy will be approved.

**37. Inventory: Differences found during stocktaking (EX.26)**

**Audit finding**

**Requirement/Limitation:**

Section 63(1) (a), (2) (a) and (b) of the MFMA states that the accounting officer is responsible for the management and safeguarding of the assets of the municipality.

**Nature:**

During a stock count attended in Senekal at 30 June 2010 the following differences between the stock on hand and the balance in the stores trial balance at 30 June 2010 were identified.

Details thereof are:

REFERENCE	DESCRIPTION	SUB DESCRIPTION	ON HAND (ON REGISTER)	VALUE	UNIT PRICE	COUNTED ON 30 JUNE 2010	DIFFERENCE IN NUMBERS	VALUE (COUNTED)	DIFFERENCE IN VALUE R	DETAIL
100028	Fuel	Diesel	4898	31202.24	6.37	3839	1059	24454.43	-6747.81	Shortage
100029	Fuel	Petrol	3832	24065.01	6.28	37	3795	232.36	-23832.65	Shortage
200160	Adaptors	16x1/4 Male Adaptor	4	39.1	9.77	3	1	29.31	-9.79	Shortage
200162	Plasson Unions	16mm unions	4	42.34	10.58	0	4	0	-42.34	Shortage
300177	Fuses	10A Dropout Fuses	25	271.34	10.85	34	-9	368.9	97.56	Surplus
300198	Meter	Single Pfase 80A Metre	4	628.6	157.15	2	2	314.3	-314.3	Shortage
300204	Lugs	70mm Crimpings Lugs	80	470.83	5.88	60	20	352.8	-118.03	Shortage
300285	Globes	250W Son E Lamps	25	1335.83	53.43	89	-64	4755.27	3419.44	Surplus
300728	Lamps	100 W HPS	147	10694.28	72.75	142	5	10330.5	-363.78	Shortage
300732	Shroud	No 4 Shroud	6	29.38	4.89	7	-1	34.23	4.85	Surplus
300733	Joints	70mm LT Heat Joints	3	56.72	18.9	2	1	37.8	-18.92	Shortage
									-31447.62	Shortage
									3521.85	Surplus
Total Population Value (A)				1 281 881,14						

REFERENCE	DESCRIPTION	SUB DESCRIPTION	ON HAND (ON REGISTER)	VALUE	UNIT PRICE	COUNTED ON 30 JUNE 2010	DIFFERENCE IN NUMBERS	VALUE (COUNTED)	DIFFERENCE IN VALUE R	DETAIL
Total Sample Size (Value) (B)						28 886,42				
Total Error in Sample (C)						27 925,77				
% Error in Sample (D)						97%				
Projected Error										
Overstatement Projected (A x D)						1 239 250,76				
Actual Error						27 925,77				
Projected Amount						1 211 324,99				

**Cause:**

Due to a lack of adequate monitoring by management reported matters and control deficiencies with regard to inventory are not corrected timeously by management.

**Impact:**

The inventory could be under/ or overstated in the financial statements.

**Internal control deficiency**

Oversight responsibility - The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control of inventory.

**Recommendation**

Once the final report has been approved by the Accounting Officer, an updated store trial balance that agrees with the financial statements should immediately be done. Corrective measures to ensure that regular stock counts are done and checked by a senior official should immediately be implemented and the details thereof forwarded to this organization.

Adequate measures should always exist to ensure that all the transactions for receipts and issues are checked by a senior official on regular basis.

**Management response**

The difference that has been identified on 30 June 2010 between the stock on hand and the trial balance has resulted due to the requisitions of store items that were not forwarded in time to the store controller at the head office (Ficksburg) for capturing. Another factor that has attributed to this matter is the shortage of staff within that specific division, as currently the store is occupied by an employee who is volunteering whereas he is permanently employed at the technical department. Attached please find the copies of all requisitions/internal receivables for your perusal.

**Auditor's conclusion**

### **38. Inventory: Stores item not included in the stores trial balance in Senekal (EX.27)**

#### **Audit finding**

##### **Requirement/Limitation:**

Section 63(1) (a), (2) (a) and (2) (b) of the MFMA (Act No. 56 of 2003) states that the accounting officer is responsible for the management and safeguarding of the assets of the municipality.

##### **Nature:**

1. During a stock count attended in Senekal the following were identified:  
1(a) The location of all the stores in the Senekal unit was not provided. After the technical store was counted it was noted that four other stores on the premises existed that was not included on the stores register:
  - the electrical workshop
  - the water store
  - the maintenance store that had bags of road fix and water pipes
  - a separate area next to the stores was also identified where pipes were stored outside
2. A number of inventory items which were still in good working condition were not included in the stock count and Stores Trial Balance. These items were kept in separate stores in Ficksburg and not in tidy, clean and logical manner (Photo's as evidence thereof were supplied to the CFO during a meeting held on 20 July 2010).
3. A number of unknown and third party inventories which was left broken and unused were imposing a risk of vandalism, break-in and theft in the municipal stores in Ficksburg (Photo's as evidence thereof were supplied to the CFO during a meeting held on 20 July 2010).

##### **Cause:**

Reported matters and control deficiencies with regard to inventory are not corrected timeously by management.

##### **Impact:**

Inventory as disclosed in the financial statements could be incorrectly disclosed.

#### **Internal control deficiency**

Oversight responsibility - The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control of inventory.

#### **Recommendation**

This matter should be followed up and the stock included in the register. The stock should be counted and valued and included in the stores register. Once the final report has been approved by the Accounting Officer an updated store trial balance that agrees with the financial statements should also immediately be done and the details also be reported to this organization.

#### **Management response**

The report regarding this matter has been forwarded to myself as the CFO for acknowledgement and the Internal Audit division was made aware of this situation in order to advise and come up with the mitigating factors. Attached please find a copy of the report of Senekal store pertaining to this matter for your perusal. A memorandum aimed at addressing this matter has been written to the managers responsible for technical to ensure that there is proper control and accountability for all the items stored in the yard. Hope you will find the above mentioned information in order.

#### **Auditor's conclusion**

This matter will be dealt with when we do stocktaking procedures to verify that these items which are stored in the municipal area are all taken into account by the responsible divisions. The exception still stands.

### **39. Inventory: Internal control deficiencies found in Ficksburg and Senekal (EX.28)**

#### **Audit finding**

##### **Requirement/Limitation:**

Section 63(1) (a), (2) (a) of the MFMA states that the accounting officer is responsible for the management and safeguarding of the assets of the municipality.

**Nature:**

1. During a stock count attended in Senekal at 30 June 2010 the following internal control deficiencies were identified:

- (a) The number of final goods received note or invoice or delivery note and goods returned note or stock issue voucher used up to date of the stock count were not available, only the files with the bin sheets.
- (b) After each item was counted the counting team did not look at the bin cards to identify the items that showed no movement for a year or more. There was also no area where the old and redundant stock was separately stored.
- (c) The shelves in the technical store were not always neat in the stock were in certain cases still in boxes and the bin number written outside on the box due to a lack of space and in other cases other items like stationery were put in the shelves due to a lack of working space. The counting team also did not have the counting instructions with them and it could not be verified if signed as acknowledgement of what is expected from them.
- (d) Only one stock sheet during the counting was compiled and one person was writing up the numbers counted. The team leader therefore could not examine the stock sheets to make sure that first and second counts are the same and agree to the quantities on the inventory sheet. The team leader therefore also did not examine the stock sheets to make sure that first and second counts are the same and agree to the quantities on the inventory sheet.
- (e) For periods during the count only one member of the counting team was present who then marked the shelves with a blue and a red stick. It could therefore not be verified if the all items were counted twice.
- (f) The electrical workshop had break-ins the last couple of months as the alarm system is too old according to the store official.
- (g) Procedures did not cater for writing the counts in ink to prevent changes made after the count.
- (h) The procedures did not include the method used to estimate physical quantities.

2. The following was found during the stocktaking in Ficksburg stores at 30 June 2010:

- (a) Inadequate security at the gate to ensure that every goods issued are accompanied by a valid invoice or issue voucher. Not at all times that have the security at the gate performed the checking of goods transit at the municipal stores.
- (b) The auditee did not have adequate fire prevention containers as only one fire extinguisher was found in the whole building.
- (c) There was a danger or a potential risk of petrol and diesel being stolen at the municipal offices as the petrol and diesel pumps was not locked.

**Cause:**

The policy regarding inventory is not in place which result in uncertainties during the actual stocktaking.

**Impact:**

The shortcomings identified during the stocktaking were not resolved and no other stocktaking was performed where the auditors are present resulting in an uncertainty regarding the reliability of the results of the stocktaking for the 2009/10 financial year.

**Internal control deficiency**

Oversight responsibility - The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control of inventory.

**Recommendation**

These stock count deficiencies should be investigated and the result thereof submitted for audit purposes.

**Management response**

Inventory: internal control deficiencies found in Ficksburg and Senekal Audit finding (Exc28)

Senekal stock count

- (a) The copies of invoices and deliver notes were made and issued to internal and external auditors by Me. Puleng Maphisa.
- (b) There is an area were the old stock is kept and also fenced.
- (c) The reason is that we do not have a permanent store man who is responsible for the neat of the store, the people who are at stores at present are only helping they are from technical department.
- (d) The lady arrives late because of transport but she was there during stock count.
- (e) The procedure will be amended to accommodate the shortcomings experienced during the year
- (f) The procedure will be amended in such a way that all entries made, be done in ink.

2 (i) Security measures will be implemented.

**Auditor’s conclusion**

Note

## Movable assets

### 40. PPE: Existence of assets could not be verified (EX.108)

#### Audit finding

#### Requirement / Limitation:

Section 63(2)(c) of MFMA prescribes that the accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed.

In terms of section 78(1) of the MFMA each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that the assets are managed effectively and that it is safeguarded and maintained.

#### Nature:

Due to the following reasons, the existence of assets could not be verified:

- 1) Even with the help of managers and supervisors, the assets with a cost price of R226 344 489,83 could not be located. The asset description in the asset register is not sufficient to identify it. Refer to annexure A for the detail of the list.
- 2) The managers and/or supervisors are not aware of the existence of the following assets:

ASSET NUMBER	ASSET DESCRIPTION old far	ASSET DESCRIPTION	ASSET CO-ORDINATE OR SERIAL NUMBER	ASSET LOCATION TOWN	ACQUISITION DATE	ASSET PRICE	COMMENTS
371232	TOWN HOUSE	TOWN HOUSE	N/A	CLOCOLAN	6/30/2001	187 921,24	Supervisor and resident not aware of improvements
2/1/3/80/44	UPGRADING	RAISING DAM WALL	N/A	FICKSBURG	6/30/1999	31 875,00	Supervisor does not know about it, big project planned for the future
CLX544FS	FRONT END LOADER	CATEPILLOR (OG 1675)	EN 45V5353	FICKSBURG	6/30/1984	35 673,00	Could be sold
461601	TOWN PLAN SCHEME	TOWN PLAN SCHEME	N/A	MARQUARD	6/30/1994	889 846,00	According to manager, Marquard doesn't have a town plan scheme
236		Upgrading sewer outfall		SENEKAL	6/30/2003	1 325 829,06	Supervisor not aware of upgrades
					<b>TOTAL</b>	<b>2 471 144,30</b>	

- 3) The assets with a cost price of R7 032 736,59 are not in use anymore and replaced with other assets:

ASSET NUMBER	ASSET DESCRIPTION OLD FAR	ASSET DESCRIPTION	ASSET GROUP SUB-GROUP	ASSET LOCATION TOWN	AQUISITION DATE	ASSET PRICE	COMMENT
202	Push-button taps - Boiketlong	N/A	Water Mains	FICKSBURG	6/30/2001	8 428,73	Replaced
371179		VIP Toilets-Meqheleng	Sewerage Mains	FICKSBURG	3/25/2004	1 114 777,95	VIP toilets were replaced
40	EQUIPMENT	Fleet management system	Roads	FICKSBURG	11/7/2002	672 250,44	Replaced, not in use
281154		VIP Toilets-Matwabeng	Sewerage Mains	SENEKAL	3/25/2004	1 028 913,74	Not in use, replaced with network
5139000	COMPUTER SYSTEM	COMPUTER SYSTEM	Computer Equipment	SENEKAL	6/30/1984	112 082,97	Redundant
5139000	FOTOCOPY MACHINE	FOTOCOPY MACHINE	Furniture and equipment	SENEKAL	6/30/1984	8 645,60	Redundant
	LOAD MONITOR SYSTEM	N/A	Electricity Mains	SENEKAL	6/30/1984	192 112,98	Replaced, redundant
371171	VIP TOILETS DWAF (2005/2006)	N/A	Sewerage Mains	SETSOTO	7/22/2005	2 471 474,40	VIP toilets have mostly been replaced with sewerage network
432355	VIP TOILETS DWAF (2005/2006)		Sewerage Mains	SETSOTO	6/30/2005	1 404 955,73	VIP toilets have mostly been replaced with sewerage network
	P4 NOTEBOOK	MECER COMPUTER	Computer Equipment	SETSOTO	11/3/2004	11 466,10	Not in use
	PROLINE LINUX COMPUTER	PROLINE COMPUTER	Computer Equipment	SETSOTO	11/16/2004	7 627,95	Not in use, all Proline computers were replaced
					<b>TOTAL</b>	<b>7 032 736,59</b>	

4) The managers and/or supervisors are aware of the existence of the following assets, but it could not be traced:

ASSET NUMBER	ASSET DESCRIPTION	ASSET MAKE - MODEL	ASSET CO-ORDINATE OR SERIAL NUMBER	ASSET LOCATION TOWN	AQUISITION DATE	ASSET PRICE
277	GESTETNER MP161SPF DIGITAL COPIER	GESTETNER MP161SPF DIGITAL COPIER	M0179311476	CLOCOLAN	1/1/2008	96 521,00
314105	TOSHIBA SATELITE PRO NOTE BOOK			FICKSBURG	8/19/2008	36 600,00
5311000	BERGERMEESTERKETING	N/A	N/A	SENEKAL	6/30/1984	157 315,63
CBN104FS	GRADER		3,930,424.00	SENEKAL	6/30/1994	254 214,04
ERF NO 1118	LAND	NO 1118	DU1000/800	SENEKAL	6/1/1988	14 600,00

ASSET NUMBER	ASSET DESCRIPTION	ASSET MAKE - MODEL	ASSET CO-ORDINATE OR SERIAL NUMBER	ASSET LOCATION TOWN	AQUISITION DATE	ASSET PRICE
ERF NO 1185	LAND	NO 1185	DU1000/800	SENEKAL	9/12/1985	8 500,00
CYJ213FS	MUTSHIBUSHI GRADER	MG 530 MOTOR GRADER	4GA51047	SETSOTO	6/30/2005	928 000,00
CYT163FS	NISSAN COMPACTOR	NISSAN UD 80- T53/16350	ADDT300000003557	SETSOTO	6/30/2005	517 690,00
405	GESTETNER PRINTER	MPW 2400 WIDE FORMAT	M3271200312		4/30/2009	732 708,27
414	EPSON PRINTER	PRO 9450 STYLUS	JZ40001356		4/30/2009	601 725,22
					<b>TOTAL</b>	<b>3 347 874,16</b>

The total value of assets of which the existence could not be verified amounts to R239 196 244,87

**Cause:**

Management does not exercise sufficient control over the description and location of assets.  
An asset count was not performed on all assets of the municipality.

**Impact:**

The existence of assets of a cost price of R239 196 244,87 could not be verified. When the error is extrapolated to the full population, the misstatement is R261 337 596,74.

The calculation thereof is as follows:

**(A)** Actual error of specifically selected items = **R235 589 463,94**

**(B)** Factual error of remaining population = R3 606 780,94

Total Rand-value of the sample = R7 636 749,80

Total Rand-value of the population = R54 517 324,81

Therefore, R3 606 780,94 / R7 636 749,80 x R54 517 324,81 = **R25 748 132,80**

**(A) + (B)** = R261 337 596,74

**Internal control deficiency**

Decisive action to mitigate emerging risks, implement timely corrective measures and address non performance - Actions are not taken to address risks relating to the achievement of complete and accurate financial and performance reporting.

**Recommendation**

The internal controls of the municipality should be improved by:

- Ensuring that assets are sufficiently described in the asset register in order to be specifically identifiable;
- Performing asset counts to ensure that all assets are accounted for and the location thereof known.

**Management response**

**Auditor's conclusion**

Since no response from management was received, the matter is reported as it is.

#### 41. PPE: Assets identified that are not properly maintained (EX.109)

##### Audit finding

##### Requirement / Limitation:

In terms of section 78(1) of the MFMA each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that the assets are managed effectively and that it is safeguarded and maintained.

##### Nature:

1) During inspection of assets, it was noted that the following assets are not properly maintained:

ASSET NUMBER	ASSET DESCRIPTION OLD FAR	ASSET DESCRIPTION	ASSET GROUP SUB-GROUP	ASSET LOCATION TOWN	AQUISITION DATE	ASSET PRICE	COMMENT
CKJ650FS	VEHICLE	TOYOTA STALLION (OND10390)	Roads	CLOCOLAN	2001/06/30	25 446,67	Written off
371176	EQUIPMENT	Risograph/Multimedia	Furniture and equipment	FICKSBURG	2002/09/01	519 848,06	Broken
CHICO 331829	VEHICLE	VOLKSWAGEN CHICO	Motor Vehicles	FICKSBURG	2003/01/21	18 154,04	Unsure of specific vehicle. 3 vehicles inspected are in bad condition: CRM207FS, CRM210FS, CWS499FS
CHICO 331830	VEHICLE	VOLKSWAGEN CHICO 1.4	Motor Vehicles	FICKSBURG	2003/01/21	42 016,44	
	MEQHELENG SPORT CENTRE	NOT APPLICABLE	Buildings	FICKSBURG	2007/06/30	1 250 842,47	Roof and windows are broken
71	MECER LAPTOP NOTEBOOK	LXTB.1.206082 62100BC12000	Furniture and Equipment	SETSOTO	2006/07/19	5 399,00	Broken
					<b>TOTAL</b>	<b>1 861 706,68</b>	

2) During a visit to the farms bought during the 2008/2009 financial year at a cost price of R18 187 902,10 (Deemster), the following was noted:

- Although security was appointed to guard the entrance, various windows were broken and zinc roof plates were removed.
- The buildings and ground show clear deterioration and lack of maintenance.

##### Cause:

Management is not exerting sufficient care to ensure that all assets are maintained and in a proper working order.

##### Impact:

Assets with a cost price of R20 049 608.78 are not properly maintained in terms of section 78(1) of the MFMA

##### Internal control deficiency

Leadership - oversight responsibility: the accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

##### Recommendation

The accounting officer should implement and adhere to controls to ensure that the municipality comply with section 78(1) of the MFMA.

##### Management response

No management response received.

**Auditor's conclusion**

Since no response from management was received, the matter is reported as it is.

**42. Internal Control: Asset count not done and reconciled to asset register (EX.18)**

**Audit finding**

**Requirement/Limitation:**

In terms of section 78(1) of the MFMA each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that the assets are managed effectively and that it is safeguarded and maintained.

Furthermore, according to section 63 of the the Municipal Finance Management Act 56 of 2003, the municipal manager is responsible and accountable for all assets of the municipality.

**Nature:**

No evidence could be obtained that an asset count was performed by the municipality and that a reconciliation between the asset count results and the assets register was done for the 2009/10 financial year.

According to note 8 to the financial statements disclosed property, plant and equipment with a carrying value of R323 938 733 (cost valuation of R546 132 805) represents 80% of the municipality's assets.

The issue of not having performed an asset count / verification was also reported in previous audits dating back to the 2006/07 financial year.

**Cause:**

The senior managers and all officials of the municipality exercising financial management responsibilities did not take all reasonable steps within their respective areas of responsibility to ensure that the assets are managed effectively by in all respects to ensure that they can be accounted for fully.

**Impact:**

Assets register could be incomplete and as results property, plant and equipment in the statement of financial position could be misstated. The existence of assets that represent 80% of total assets could not be verified with sufficient appropriate audit evidence.

**Internal control deficiency**

Decisive action to: mitigate emerging risks, implement timely corrective measures and address non performance - Actions are not taken to address risks relating to the achievement of complete and accurate financial and performance reporting.

**Recommendation**

Evidence with details of the assets count of all the assets of the Council should be obtained and submitted for audit purposes. If counts have not been performed, the reasons thereof should be obtained at submitted for audit purposes. The asset count should be annual performed reflecting the shortcomings identified and to ensure that the assets exist and can be located, are in working order and assets were identified that have a shorter useful life than initially anticipated and that the depreciation period in the asset register was adjusted.

**Management response**

This is the report of assets verification that we did for only finance department of Setsoto municipality.

**Auditor's conclusion**

The report of assets verification submitted to the team was inspected and it was confirmed that the verification was only with regards to the finance department.

Since the risk is not addressed for the entire asset register, the exception remains.

**43. PPE: Asset register information is insufficient (EX.60)**

## Audit finding

### Requirement / Limitation:

Section 63(2)(c) of MFMA prescribes that the accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed.

### Nature:

Through inspection of assets register submitted for audit purpose electronically, the following weaknesses were identified:

1. Assets with a cost price of R6 603 232,03 do not have descriptions. Details thereof are:

ASSET NUMBER	ASSET GOBODO SUB NUMBER	ASSET DESCRIPTION OLD FAR	ASSET MAKE - MODEL	ASSET LOCATION TOWN	AQUISITION DATE	ASSET PRICE (R)
371847				FICKSBURG	6/30/1976	7 636,61
173	2007/2008		NOT APPLICABLE	FICKSBURG	6/30/2008	7 929,00
				SETSOTO	6/30/2005	9 120,00
191	2007/2008		NOT APPLICABLE	FICKSBURG	6/30/2008	11 850,69
LED PROJECT-515024			TEXTILE FACTORY	SENEKAL	6/30/2003	12 679,15
195	2007/2008		NOT APPLICABLE	FICKSBURG	6/30/2008	14 231,62
372982				FICKSBURG	6/30/1976	15 000,00
174	2007/2008		NOT APPLICABLE	FICKSBURG	6/30/2008	15 858,00
				CLOCOLAN	6/30/1994	17 407,00
5/7/1/90/10				FICKSBURG	6/30/1978	20 000,00
				FICKSBURG	12/1/2003	24 400,00
				SETSOTO	6/30/2005	27 595,23
5610214				SETSOTO	6/30/2005	42 900,00
175	2007/2008		NOT APPLICABLE	FICKSBURG	6/30/2008	45 477,92
267				FICKSBURG	6/30/1990	204 906,79
5/7/1/15/1				SETSOTO	6/30/2005	375 384,28
31				SETSOTO	6/30/2005	416 700,00
2520222				FICKSBURG	6/30/2000	775 465,42
281154			Matwabeng	SENEKAL	6/30/2004	821 665,66
					12/1/2009	224 904,98
					11/3/2009	92 777,87
					10/9/2009	88 700,40
					8/27/2009	11 580,50
					6/30/2010	90 012,50
					2/5/2010	399 671,00
				SETSOTO	7/1/2009	1 664 250,30
				SETSOTO	3/1/2009	94 791,15
				SETSOTO	7/1/2009	1 070 335,96
					<b>TOTAL</b>	<b>6 603 232,03</b>

2. Assets has been indicated as "Other" as a method of funding, amounting to a cost price of R1 294 962,38. Details thereof are:

ASSET NUMBER	ASSET DESCRIPTION OLD FAR	ASSET DESCRIPTION	ASSET LOCATION TOWN	AQUISITION DATE	ASSET PRICE (R)	ASSET FUNDING
232551	BUILDING	BUILDING	CLOCOLAN	6/30/2001	7 865,82	OTHER
169	VEHICLE	GALLION GRADER	CLOCOLAN	6/30/1984	8 280,00	OTHER
252021	BUILDING	BUILDING	CLOCOLAN	6/30/2001	11 100,00	OTHER
232220	OFFICE	OFFICE	CLOCOLAN	6/30/2001	11 594,78	OTHER
261023	MAIN BUILDING	MAIN BUILDING	CLOCOLAN	6/30/2001	14 880,00	OTHER
	OFFICE	OFFICE	CLOCOLAN	6/30/2001	26 713,67	OTHER
471151	ELECTRICITY NETWORK	ELECTRICITY NETWORK	CLOCOLAN	6/30/2001	34 924,02	OTHER
252025	FENCES	FENCES	CLOCOLAN	6/30/2001	40 100,00	OTHER
2/1/3/02/8	IMPROVMENTS	IMPROVMENTS	CLOCOLAN	6/30/2001	52 000,00	OTHER
ERF 97	ERF 97 HAROLDSTR	ERF 97 HAROLDSTR	CLOCOLAN	6/30/2001	115 000,00	OTHER
4711513	TARR ROADS	TARR ROADS	CLOCOLAN	6/30/2001	228 618,55	OTHER
	WATER NETWORK	WATER NETWORK	CLOCOLAN	6/30/2001	326 784,30	OTHER
158	TOWN LANDS 2072.8915HA	TOWN LANDS 2072.8915HA	CLOCOLAN	6/30/2001	417 101,24	OTHER
				<b>TOTAL</b>	<b>1 294 962,38</b>	

3. Assets amounting to a cost price of R309 654 866,94 did not have physical location of assets indicated, only town which assets is located is indicated. See Annexure A.

4. Assets amounting to a cost price of R229 217 489,65 had no unique numbers/assets number. See Annexure B.

5. The physical condition of the assets is not indicated on the register and it could not be substantiated that all assets are in good condition

6.1 It was noted that assets amounting to a cost price of R169 771,24 could not be distinguished from other assets in the register, and could therefore be duplicated. Details thereof are:

ASSET DESCRIPTION OLD FAR	ASSET	ASSET DESCRIPTION	ASSET MAKE - MODEL	ASSET CO-ORDINATE OR SERIAL NUMBER	AQUISITION DATE	ASSET PRICE (R)
PROLINE LUNIX COMPUTER	COMPUTER	PROLINE COMPUTER			11/16/2004	7 627,95
PROLINE LUNIX COMPUTER	COMPUTER	PROLINE COMPUTER			11/16/2004	7 627,95
PROLINE LUNIX COMPUTER	COMPUTER	PROLINE COMPUTER			11/16/2004	7 627,95
PROLINE LUNIX COMPUTER	COMPUTER	PROLINE COMPUTER			11/16/2004	7 627,95
PROLINE LUNIX COMPUTER	COMPUTER	PROLINE COMPUTER			11/16/2004	7 627,95
PROLINE LUNIX COMPUTER	COMPUTER	PROLINE COMPUTER			11/16/2004	7 627,95
PROLINE LUNIX COMPUTER	COMPUTER	PROLINE COMPUTER			11/16/2004	7 627,95
PROLINE LUNIX COMPUTER	COMPUTER	PROLINE COMPUTER			11/16/2004	7 627,95
PROLINE LUNIX COMPUTER	COMPUTER	PROLINE COMPUTER			11/16/2004	7 627,95
PROLINE LUNIX COMPUTER	COMPUTER	PROLINE COMPUTER			11/16/2004	7 627,95
PROLINE LUNIX COMPUTER	COMPUTER	PROLINE COMPUTER			11/16/2004	7 627,95
PROLINE LUNIX COMPUTER	COMPUTER	PROLINE COMPUTER			11/10/2004	8 979,46

ASSET DESCRIPTION OLD FAR	ASSET	ASSET DESCRIPTION	ASSET MAKE - MODEL	ASSET CO- ORDINATE OR SERIAL NUMBER	AQUISITION DATE	ASSET PRICE (R)
PROLINE LUNUX COMPUTER	COMPUTER	PROLINE COMPUTER			11/10/2004	8 979,46
PROLINE LUNUX COMPUTER	COMPUTER	PROLINE COMPUTER			11/10/2004	8 979,46
PROLINE LUNUX COMPUTER	COMPUTER	PROLINE COMPUTER			11/10/2004	8 979,46
PROLINE LUNUX COMPUTER	COMPUTER	PROLINE COMPUTER			11/10/2004	8 979,47
PROLINE LUNUX COMPUTER	COMPUTER	PROLINE COMPUTER			11/10/2004	8 979,47
20 LITRE PAIL ONLY NO LID	NIGHTSOIL BUCKET	NIGHTSOIL BUCKET	N/A	N/A	6/30/2005	9 903,75
20 LITRE PAIL ONLY NO LID	NIGHTSOIL BUCKET	NIGHTSOIL BUCKET	N/A	N/A	6/30/2005	9 903,75
20 LITRE PAIL ONLY NO LID	NIGHTSOIL BUCKET	NIGHTSOIL BUCKET	N/A	N/A	6/30/2005	9 903,75
20 LITRE PAIL ONLY NO LID	NIGHTSOIL BUCKET	NIGHTSOIL BUCKET	N/A	N/A	6/30/2005	9 903,75
					<b>TOTAL</b>	<b>169 771,24</b>

6.2 It was also noted that vehicles amounting to a cost price of R3 146 396,14 duplicate registration numbers in the register, and could therefore be duplicated. Details thereof are:

ASSET NUMBER	ASSET DESCRIPTION OLD FAR	ASSET DESCRIPTION	ASSET MAKE - MODEL	ASSET CO- ORDINATE OR SERIAL NUMBER	AQUISITION DATE	ASSET PRICE
CBN105FS	INFRASTRUCTUR E ROADS & STORMWATER	EXT 18	Ext. 18		6/30/1980	8 308,94
CBN105FS	VEHICLE	GRADER	GRADER	SAG999	6/30/1984	20 007,00
CHD129FS	VEHICLE	VEHICLES	NISSAN 1400 STD	A955569	1/7/2003	14 992,90
CHD129FS	VEHICLE	VEHICLE	NISSAN ( OG 13915)	VIN A955569	6/30/2002	31 322,00
CJH619FS	VEHICLE	FRONT- ENDPLOADER JCB	JCB		6/30/2001	23 000,00
CJH619FS	VEHICLE	FRONT- ENDPLOADER JCB	JCB		6/30/2001	35 756,67
CJH619FS	CLEANSING SITE	CLEANSING SITE	NOT APPLICABLE	NOT APPLICABLE	6/30/1984	100 000,00
CJZ697FS	VEHICLE	LIGHT DELEVERY VEHICLE	ISUZU		6/30/1984	10 000,00
CJZ697FS	VEHICLE	TOYOTA HIACE	TOYOTA HIACE (ORD 334)	4Y9058944	1/7/2003	49 205,00
CLX544FS	VEHICLE	FRONT END LOADER	CATEPILLOR (OG 1675)	EN 45V5353	6/30/1984	35 673,00
CLX544FS	VEHICLE	BULDOZER	CATEPILLOR	L1490	6/30/1978	37 236,12

ASSET NUMBER	ASSET DESCRIPTION OLD FAR	ASSET DESCRIPTION	ASSET MAKE - MODEL	ASSET CO-ORDINATE OR SERIAL NUMBER	AQUISITION DATE	ASSET PRICE
CLX559FS	VEHICLE	LDV OG 5478	ISUZU	VIN 269368	6/30/1984	8 000,00
CLX559FS	VEHICLE	VEHICLE	NISSAN (OG 12451)	VIN 942213	6/30/1984	11 978,01
CNJ899FS	VEHICLE	TRAILER	OG 1125		6/30/1986	32 171,10
CNJ899FS	VEHICLE	TRAILER (OG17229)	DU PLESSIS TRAILER	VIN AH 9W0504LR9AA 1294	6/30/1984	48 549,40
CYJ210FS	VEHICLE	MUTSHIBUSHI GRADER	MG 530 MOTOR GRADER	4GA51049	6/30/2005	928 000,00
CYJ210FS	VEHICLE	VIHICLES AND EQUIPMENT	MITSUBUSHI GRADER	MG5304GA510 49	2/23/2004	1 105 800,00
CYT164FS	VEHICLE	VEHICLES	NISSAN TRUCK	ADDT5300000 003486	11/7/2001	240 100,00
CYT164FS	VEHICLE	NISSAN TRUCK	NISSAN UD 80 - T53/'16150		6/30/2005	406 296,00
					<b>TOTAL</b>	<b>3 146 396,14</b>

The matter was also reported as a control issue in item 37 of the 2008/2009 Management Report.

**Cause:**

As per management comments on the matter reported in the prior year, they are busy with training sessions, counting of assets, marking, identifying so that they can start with the phases of implementing GRAP 17 and adhere to the requirements. This process has not yet been completed.

**Impact:**

Theft and losses of assets could occur if the location of assets is not stated on assets register for reference purpose.

Assets could be understated or overstated with unknown amount if the assets/unique number, location and physical condition of assets in the assets register (cost price of R6 603 232,03) cannot be determined. This is the actual misstated amount and will not be extrapolated.

Furthermore, assets could be incorrectly disclosed in the annual financial statements since it would seem that the requirements of GRAP 17 are not considered looking at the assets register.

**Internal control deficiency**

Decisive action to: mitigate emerging risks, implement timely corrective measures and address non performance - Actions are not taken to address risks relating to the achievement of complete and accurate financial and performance reporting.

**Recommendation**

Management should ensure that the assets register contains the prescribed information for each listed asset.

**Management response**

2.1 Management will ensure that the asset register contains the prescribed information for each listed asset. Audit General should give and assist Setsoto with the prescribed information as required by the applicable act. Due date for this implementation is June 2011.

2.2 All assets is already changed in the ledger and should just be corrected in the assets register.

2.3 We take note of the exception and will work on the correction thereof. We did not receive your annexure A to view the proof of the investigation.

2.4 We take note of the exception and will work on the correction thereof. We did not receive your annexure B to view the proof of the investigation.

2.5 We do not indicate the condition of the asset in the register and that is why we need AG assistance with the prescribed information according to the act.

2.6 Our department works on information and if information is submitted in the correct way the register will be set up correctly. If management does not submit our department with the correct information, it is then that you receive assets as they are registered. Setsoto have procedures and policies of how assets should be handled, we just have to follow the act.

**Auditor's conclusion**

Since management acknowledged the weaknesses in the environment, the exception remains and should be followed up again in the 2010/2011 audit.

#### **44. LED projects: Textile project (Senekal) (EX.64)**

##### **Audit finding**

##### **Requirement / Limitation:**

Section 62(1)(b) of MFMA prescribes that the accounting officer for a municipality is responsible for managing the financial administration of the municipality and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norm and standards.

##### **Nature:**

This matter was also reported in paragraph 15 of the 2008/2009 Management Letter (and in the previous four year's management letters and audit reports) and indicated several weaknesses relating to the Senekal Textile Project. The following are unresolved issued from the previous years were identified:

1. There was a lack of appropriate audit evidence for spending of R1 107 104 (R1 005 000 (2002/03), R92 142 (2003/04), R733 (2004/05), R9 229 (2005/06))
2. Five new sewing machines of R56 651 could still not be found.
3. Reasons why the DORA report in terms of DORA 2006 were still not submitted to the council, the treasury and the auditor general.
4. The componentisation of this amount of R644 506 has still not been completed. In this regard, Directive 4 exempts measurement until next year.

Since no progress has been made to identify and verify the assets at 30 June 2010, the matter remains outstanding at 30 June 2010.

##### **Cause:**

Lack of adequate responsibility of management to implement sufficient controls surrounding the administration of the projects and the payment of Local Economical Development Funds.

##### **Impact:**

A limitation of the scope of R1 107 104, since proper documentation and controls could not be submitted.

This is the actual misstatement and will therefore not be extrapolated over the entire asset register.

This could result in a material misstatement of the property, plant and equipment on the projects at financial year-end.

##### **Internal control deficiency**

Financial and performance management - Proper record keeping and record management; the documents supporting the above are properly filed and easily retrievable: Requested information was not available and supplied without any significant delay.

##### **Recommendation**

This matter should now be followed up in order to ensure the prior audit report matters are resolved.

The following should be obtained and submitted for audit purposes:

- Details of the total expenditure on the project as compared to the total value of the assets at year-end
- Reasons for deviation, if any
- Reasons for not reporting on the project in terms of DORA.

##### **Management response**

No management response received.

##### **Auditor's conclusion**

Enquiry was made to the LED officer (Mr T Zondo) on 14 September 2010. He indicated that the LED office has already identified the beneficiaries as they have been registered as a corporative and that the co-operative certificate has been obtained. However,

they were still awaiting feedback from the Department of Social Development regarding the business plan and funding. Since the project doesn't have any funding, it is not functioning at all at the moment.

Although the amount that could not be verified is below materiality and should be reported in the management report, it was included in prior year audit reports and will therefore be included in the audit report again. It will also be included on the summary of unadjusted misstatements and evaluated with other misstatements in the current year.

**45. PPE: Redundant and absolute assets not traced to location or assets register (EX.66)**

**Audit finding**

**Requirement / Limitation:**

Section 63(2)(c) of MFMA prescribes that the accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed.

In terms of section 78(1) of the MFMA each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that the assets are managed effectively and that it is safeguarded and maintained.

The list of redundant/obsolete assets obtained from Mr Jan Potgieter (Accountant: Budget and financial statement). 30 items were selected and but only 1 could be traced to the assets register and is confirmed to be in good condition. Significant doubt was casted regarding the completeness of the asset register, since sufficient comfort could not be obtained that all the assets on the redundant / obsolete assets list are included in the register. Evidence could also not be obtained that the assets have been authorized to be written off.

Refer to the list of assets that could not be traced:

ASSET NO	DISCRIPTION	OFFICE NO	OFFICIAL	DEPARTMENT	TOWN
SSM 0805604	Keyboard	Corporate 03	Roy Hlongwane	Housing	Senekal
SSM 08059028	Arm Chair Grey	Chamber 06	M. Chele	Corporate	Senekal
SSM 0804696	Filling Cabinet	Corporate 09	M. Chele	Corporate	Senekal
SSM 08055011	Filling Cabinet	Housing 12	Sebutsoe	Housing	Senekal
SSM 0808001	Wheel Trolley	Sever 22A	None	IT	Senekal
5SA18C1000	One Drawer Table	Finance 18	Elsabe	Finance	Senekal
SSM 08051206	Nashua Fax	Finance 18B	Anna	Finance	Senekal
8050214	Wooden Table	Matwabeng Cashier	Mapuleng	Finance	Senekal
5139036	Steel Cabinet	Matwabeng Kitchen	Mohanuoa	Finance	Senekal
SSM 08050006	Office Chair	Technical 02	Arthur	Technical	Senekal
SSM 08050016	Keyboard	Technical 02	Arthur	Technical	Senekal
8050027	Desk	Technical 02	Arthur	Technical	Senekal
SSM08050051	Computer Stand	Technical 03	Abia	Technical	Senekal
SSM08050058	Swing Chair Cream	Technical 06	Puleng	Technical	Senekal
SSM08050083	Office Table	Technical 08	Abia	Technical	Senekal
SSM08050093	Steel Bin Shelf	Technical 10	Abia	Technical	Senekal
R371/08/15	Proline Computer	Corporate 02	Sibongile	Administran Division	Senekal
	Arm Chair Grey	Chamber 06	M. Chele	Administran Division	Senekal
2114052004	Typist Chair Brown	Kitchen 07	M. Chele	Administran Division	Senekal
SG5CU1N246	Filling Cabinet	Housing 12	Sebutsoe	Administran Division	Senekal
	Small Table	Reception 15	Mariana	Administran Division	Senekal
362801	7Fin Oil Heater	N/A	N/A	Water & Sewer	Ficksburg
P59328	Monochrome Monitor	N/A	N/A	Water & Sewer	Ficksburg
	25 x Single Phase Meters		Wessel De Villiers	Electrical	Ficksburg
	1 * piece of windmill				
1035	Printer Xerox				
CK162-11D	Mecer C.P.U	1	Obsolete		Senekal
	Account Folding Machine	1	Obsolete		Senekal

**Cause:**

Asset descriptions in the asset register is not sufficient to clearly identify assets.

**Impact:**

Assets register could be incomplete and as results property, plant and equipment in the statement of financial position could be overstated or understated with unknown amount.

**Internal control deficiency**

Decisive action to mitigate emerging risks, implement timely corrective measures and address non performance - Actions are not taken to address risks relating to the achievement of complete and accurate financial and performance reporting.

**Recommendation**

Management is required to ensure that all redundant and absolute assets are included on the assets register until they have been properly followed up, authorized, written off and disposed off.

**Management response**

Management must execute and apply the supply chain management policy to dispose the assets since we submitted the list to the former municipal manager. Either by auction, donation, or any recommended method by SCM policy.

For all redundant assets which remained item of asset register until management dispose them we cannot remove them on asset register. According to exception 66 on the list of thirty items only one is traceable to the asset register.

On the exception 66 I noticed that AG recommended that management must ensure that redundant assets remain on register until followed up, authorized, and disposed off, and on the other side they say "significant doubt was casted regarding completeness of asset register since the list is included in the register, evidence could not be obtained."

**Auditor's conclusion**

Since the risk is not addressed for the entire asset register, the exception remains. This should be followed up again during the 2010/2011 audit.

#### **46. PPE: Supporting documentation for 2008/09 additions not obtained (EX.67)**

##### **Audit finding**

##### **Requirement/Limitation:**

Section 62(1)(b) of MFMA prescribes that the accounting officer for a municipality is responsible for managing the financial administration of the municipality and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norm and standards.

##### **Nature:**

New assets including infrastructure assets acquired/paid during the 2008/09 financial year were selected from assets register, but supporting documents, such as contracts, payment vouchers, invoices, receiving reports, etc could not be submitted for audit purpose in order to determine the correctness, recording, accuracy and validity of these payments.

This resulted in a qualification reported in paragraph 26 of the 2008/2009 management letter of R10 333 150.45.

During the current year, these supporting documents were requested again, but no original contracts, payment vouchers, invoices, receiving reports, etc could be submitted.

Request for information number 11 was issued on 8 September 2010 and followed up on 18 October 2010 with the internal audit manager (Me Selina Lebeko). The lack of supporting documents as requested for audit purposes result in a lack of scope on the audit.

##### **Cause:**

Management could not submit the information for audit purposes due to control deficiencies in the department's filing system.

##### **Impact:**

Could result in a limitation of scope on the audit and hence a qualification. The opening balance of assets with a carrying value of R328 451 486 could not be verified as correct and should be disallowed because PPE is therefore overstated by this amount and debtors understated.

##### **Internal control deficiency**

Financial and performance management - Proper record keeping and record management; the documents supporting the above are properly filed and easily retrievable: Requested information was not available and supplied without any significant delay.

##### **Recommendation**

Supporting documentation such as contracts, invoices, payment advices/vouchers, etc of the above selected assets should be submitted for audit purposes urgently. The opening balance should be adjusted with the amount for which sufficient appropriate documentation could not be submitted

##### **Management response**

No management response received.

##### **Auditor's conclusion**

Since no response from management was received, the matter is reported as it is.

**47. PPE: Limitations to PPE additions supporting documentation (EX.78)**

**Audit finding**

**Requirement / Limitation:**

Section 65(2)(a) of the MFMA states that the accounting officer of a municipality must take all reasonable steps to ensure that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorization, withdrawal and payment of funds.

Section 5 of the municipal supply chain management policy prescribed the levels of approval within the municipality.

**Nature:**

Through performance of our audit procedures on asset acquisitions, the following issues were identified relating to the documentation received from the auditee:

1) For the following payments made, the amount per general ledger does not agree to the supporting documentation:

DATE	GENERAL LEDGER AMOUNT (R)	CHEQUE NUMBER	DESCRIPTION	CONTRACTOR / VENDOR	NET AMOUNT PER INVOICE (R)	DIFFERENCE (R)
11/27/2009	12 288,67	K7517	Toshiba Satellite Core 2 Duo VHP note book	Mustek	12 119,00	169,67
6/3/2010	60 840,00	K9969	Deposit on Posmate III pressure seal machine	Vic computers & stationers	60 000,00	840,00
11/27/2009	11 274,72	K7517	Toshiba Satellite Core 2 Duo VHP note book	Mustek	11 404,00	-129,28
11/27/2009	12 288,62	K7517	Toshiba Satellite Core 2 Duo VHP note book	Mustek	12 119,00	169,62
10/23/2009	89 516,92	K6933	Upgrading of waste water treatment	Isa & Partners	91 306,53	-1 789,61
10/2/2009	13 090,00	K6592	Toilets structures	Mr W Vries	19 330,00	-6 240,00
					<b>TOTAL</b>	<b>-6 979,60</b>

2) Although completion certificates were submitted for the following payment, no invoice was attached to the documentation received:

DATE	GENERAL LEDGER AMOUNT	CHEQUE NUMBER	DESCRIPTION	CONTRACTOR / VENDOR	AMOUNT NOT VERIFIED
3/31/2010	80 897,07	K9137	Professional fees - Augmentation of raw water supply. Construction of pipelines and reservoir	Cool Ideas 41 (Pty) Ltd	80 897,07

These two errors result in a total of R73 917,47

3) No evidence that the payment was properly authorised in terms of section 5(1) of the municipal supply chain management policy could be obtained for the following payments:

DATE	GENERAL LEDGER AMOUNT (R)	CHEQUE NUMBER	DESCRIPTION	CONTRACTOR / VENDOR
9/11/2009	636 299,99	K5694	Upgrading of oxidation pond	Big Bravo Construction
10/23/2009	46 111,32	K6935	Construction of pipe line (professional fees)	Cool Ideas 41 (Pty) Ltd
12/1/2009	66 635,45	K7540	Construction of bus route and storm water drainage	Josan Construction
9/4/2009	59 333,05	K6112	Sewer pump station	Cool Ideas 41 (Pty) Ltd
12/3/2009	97 818,30	K7566	Constructing of pump station	Ike metal works
1/29/2010	29 134,92	K8360	Toilets structures	Mr W Vries
5/20/2010	50 034,62	K9661	Bucket eradication	Karolo ya safrika
<b>TOTAL</b>	<b>985 367,65</b>			

**Cause:**

Management does not apply due care to the accuracy of accounting for transactions, does not ensure that all documentation is kept and that all transactions are sufficiently authorized.

**Impact:**

A misstatement to the value of R73 917,47. When the misstatement is extrapolated to the full population, the total error is R151 941,50.

The calculation thereof is as follows:

Factual error = R73 917,47

Total Rand-value of the sample = R12 488 513,10

Total Rand-value of the population = R25 670 838

Therefore,  $R73\,917,47 / R12\,488\,513,10 \times R25\,670\,838 = R151\,941,50$

Also, Irregular expenditure of R985 367,65 should be disclosed. The extrapolated value of the unauthorized expenditure is R2 709 761,04.

The calculation thereof is as follows:

Factual error = R985 367,65

Total number of items in the sample = 52

Total number of items in the population = 143

Therefore,  $143 / 52 \times R985\,367,65 = R2\,709\,761,04$

**Internal control deficiency**

Decisive action to: mitigate emerging risks, implement timely corrective measures and address non performance - Actions are not taken to address risks relating to the achievement of complete and accurate financial and performance reporting.

**Recommendation**

The internal controls of the municipality should be improved to ensure that payments are accounted for at the correct amount, as per supporting documentation, all supporting documentation is kept and stored safely and payments are sufficiently authorized by management.

**Management response**

No management response received.

**Auditor's conclusion**

Since no response from management was received, the matter is reported as it is.

**Operating expenditure****48. PPE: Legal Fees incorrectly capitalised to assets (EX.104)****Audit finding****Requirement / Limitation:**

The GRAP 1 definition of assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

GRAP17.25(b) states that the cost of an item of property, plant and equipment comprises of any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

In terms of section 125(2)(d)(i) of the MFMA, particulars of any material losses and any material irregular or fruitless and wasteful expenditures, including in the case of a municipality, any material unauthorised expenditure, that occurred during the financial year, and whether these are recoverable should be disclosed in a note to the financial statements.

**Nature:**

Included in the asset register for infrastructure acquisitions, are the following payments with regard to legal fees paid during the current year:

DATE	GENERAL LEDGER AMOUNT	CHEQUE NUMBER	DESCRIPTION	CONTRACTOR / VENDOR	GENERAL LEDGER POST
12/10/2009	142 045,01	K7668	High court settlement	Schoeman & Maree Att	703 0060 006
5/28/2010	550 000,00	k9744	Beosumbar - court order (arbitration payment)	Beosumbar & Associates	703 0060 006
<b>TOTAL</b>	<b>692 045,01</b>				

Although par.26(f) of the standard lists professional fees as examples of directly attributable costs, these were not incurred at bringing the asset to the condition necessary for it to be capable of operating in the manner intended by management.

**Cause:**

GRAP 17 is not applied correctly due to the misinterpretation of the cost of assets to be recognized.

**Impact:**

The value of Property, plant and equipment is overstated by R692 045,01 while legal fees and is understated by the same amount. This is an anomalous misstatement and therefore the error will not be projected to the rest of the population.

Fruitless and wasteful expenditure of R692 045,01 must be disclosed.

**Internal control deficiency**

Decisive action to: mitigate emerging risks, implement timely corrective measures and address non performance - Actions are not taken to address risks relating to the achievement of complete and accurate financial and performance reporting.

**Recommendation**

This matter should be followed up and corrected. Management should ensure that operating expenses are not capitalized and fruitless and wasteful expenses disclosed.

**Management response**

No management response received.

**Auditor's conclusion**

Since no response from management was received, the matter is reported as it is.

**49. Contracts and agreements: Limitation on scope of audit (EX.12)**

**Audit finding**

**Requirement/Limitation:**

As per paragraph 39 of the audit engagement letter 27 July 2010, discussed and agreed upon between the AGSA and the Accounting Officer, information requested should be submitted within 3 days of the submission of the request to the Auditor General South Africa.

**Nature:**

Contracts and agreements were requested with Request for information no.3 was issued to Mrs Selina Lebeko on 4 August 2010. This request was verbally updated on 6 and 10 August 2010 and should therefore have been submitted by 13 August 2010.

As up to date, documentation is still outstanding. These contracts and agreements relates to the following suppliers to which the amounts indicated below were paid during the course of the 2009/10 financial year:

SUPPLIER'S NAME	CUMULATIVE AMOUNT PAID TO SUPPLIER (R)
DUMANSI TRADING CC	291 405,39
HENTIQ 2715 (PTY) LTD	484 522,00
IKE METAL WORKS	389 155,59
ISA & PARTNERS	3 935 487,63
JOSAN CONSTRUCTION CC	256 995,31
MACNEIL DISTRIBUTORS	725 382,00
MP CONSTRUCTION	1 972 350,03
<b>TOTAL (A)</b>	<b>8 055 297,95</b>

The absence of these contracts is not in line with the SCM policy and will be reported as a non compliance issue. The error will not be extrapolated since the calculation was made with all payments having been considered.

**Cause:**

Enquiry on 17 August 2010 from Mrs Selina Lebeko revealed that the employees who are responsible of the information was on training, and also, some of the information is needed in the compilation of the annual financial statements, due 31 August 2010.

After 31 August 2010 no valid explanation were provided as to why these contracts were not submitted for audit.

**Impact:**

The non submission of information is in contravention of the agreement in the engagement letter, which could lead to an increase in audit fees.

**Internal control deficiency**

Financial and performance management - Proper record keeping and record management; the documents supporting the above are properly filed and easily retrievable: Requested information was not available and supplied without any significant delay.

**Recommendation**

The information requested should be submitted to the audit team as soon as possible.

**Management response**

No management response received.

**Auditor's conclusion**

No information was received from the auditee. It should be indicated:

- a) why the information was not submitted;
- b) why it should still be considered for purpose of the audit;
- c) if the entity is prepared to pay the resultant increased audit cost.

Since no response from management was received, the matter is reported as it is.

## 50. General expenses: payment vouchers not submitted for audit purpose (EX.125)

### Audit finding

#### Requirement/Limitation:

Section 62(1)(b) of the MFMA prescribes that: the accounting officer of a municipality is responsible for managing the financial administration of the municipality and take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards.

#### Nature:

The following expenditure payments documents representing general expenses could not be obtained for audit purposes and thus limiting our scope of audit. This was requested from finance on 09 November 2010 and informed on 10 November 2010 that it could not be traced in the payment voucher files submitted for audit purposes:

PAYMENT NO	ITEM	AMOUNT R	PAYMENT DATE
k5478	Fuel and Oil	500,00	10/20/2009
k7687	Fuel and Oi	3 760,00	
k9531	Fuel and Oi	2 889,98	12/15/2009
k6741	Legal Expens	27 577,50	
k7503	Legal Expens	912,00	5/11/2010
k0425	Legal Expense	59 148,62	
k7750	Legal Expense	16 964,99	10/16/2009
k9913	Legal Expense	282 937,28	
k6928	Software changes	139 201,92	4/13/2010
k5327	Telephone	17 212,35	
k6055	Software changes	165 129,90	6/30/2010
k6757	Telephone	37 040,86	12/2/2009
	<b>Total</b>	<b>753 275,40</b>	

If the error is extrapolated over the total population the total error is:

Total Population Value (A)	36 752 256.00
Total Sample Size (Value) (B)	2 811 230.64
Total Error in Sample (C)	753 275.40
% Error in Sample (D)	26.8%
Projected Error	
Overstatement Projected (A x D)	9 847 847.40
Actual Error	753 275.40
Projected Amount	9 094 572.00

#### Cause:

Management could not provide the required information due to weaknesses in municipality's record keeping system.

#### Impact:

In absence of the payment voucher and the supporting documents the validity, accuracy and existence of the transaction could not be verified there by leading to non achievement of the financial reporting objective. Payments made without supporting documentation may cause the municipality to incur inappropriate, unauthorised or fraudulent expenditure.

#### Internal control deficiency

Financial and performance management - Proper record keeping and record management; the documents supporting the above are properly filed and easily retrievable: Requested information was not available and supplied without any significant delay

#### Recommendation

These vouchers should be located and submitted to audit immediately.

Furthermore, measures should be introduced that could ensure that full and proper records of financial affairs of the municipality are properly maintained and made available for audit purpose when requested

**Management response**

**Auditor's conclusion**

**51. General expenses: Expenditure overstated with incorrect calculation of VAT (EX.131)**

**Audit finding**

**Requirement/Limitation:**

Section 62(1)(b) of the MFMA states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs are kept in accordance with any prescribed norms and standards.

**Nature:**

Through inspection of supplier invoices and comparisons to the general ledger VAT account, it was observed that VAT transactions are not correctly posted to the general ledger which resulted in an overstatement of expenditure transactions. Below is a list of expenditure transactions which are recorded in the general ledger at overstated amounts.

1) VAT recorded in the VAT input account and cash book is less than VAT charged by suppliers, resulting in overstatement of expenditure per vote and understatement of the Vat input account.

NO.	ITEM DESCRIPTION	DATE	CHEQUE NO	VAT PER TAX INVOICE R	VAT PER LEDGER R	DIFFERENCE R
1	Audit fees	9/15/2009	K6220	18 380,18	0	18 380,18
2	Audit fees	10/8/2009	K6626	75 009,55	0	75 009,55
3	Audit fees	10/8/2009	K6627	4 200,00	0	4 200,00
4	Audit fees	9/15/2009	k6221	68 562,51	0	68 562,51
5	Audit fees	6/30/2010	K0411	262,92	0	262,92
6	Audit fees	9/15/2009	k6173	8,10	0	8,10
7	Audit fees	6/30/2010	k0412	1 346,52	0	1 346,52
8	Audit fees	6/30/2010	k0392	469,67	0	469,67
9	Audit fees	9/15/2009	K6172	529,68	0	529,68
10	Chemicals	10/28/2009	k6997	821,16	0	821,16
11	Legal Expense	5/11/2010	k9543	10 880,00	0	10 880,00
12	Telephone	8/31/2009	k6075	426,70	384,03	42,67
13	Telephone	4/22/2010	k9303	165,63	150,90	14,73
14	Telephone	11/23/2009	k7221	4 958,47	4 462,60	495,87
15	Telephone	11/26/2009	k7471	515,51	513,30	2,21
16	Telephone	3/11/2010	k8834	191,76	322,50	-130,74
17	Telephone	6/24/2010	k0089	4 758,44	4 282,60	475,84
18	Telephone	5/17/2010	k9599	4 736,59	4 322,37	414,22
19	Telephone	23/10/2009	k7013	339,59	310,04	29,55
20	Telephone	8/24/2009	k5852	4 473,65	4 026,29	447,36
21	Telephone	6/10/2010	k7136	2 005,23	0	2 005,23
22	Telephone	6/30/2010	k0135	923,26	840,39	82,87
23	Telephone	4/26/2010	k9332	332,67	303,99	28,68
				204 297,79	19 919,01	184 378,78

If the error is extrapolated over the total population the total error is:

Total Population Value (A)	36 752 256.00
Total Sample Size (Value) (B)	2 811 230.64
Total Error in Sample (C)	184 378.78
% Error in Sample (D)	6.28%
Projected Error	
Overstatement Projected (A x D)	2 308 855,12
Actual Error	184 378,78
Projected Amount	2 124 476,34

**Cause:**

The Finstel system automatically calculates VAT against the vote number; therefore it is impossible for them to change VAT. This matter has also been forwarded to the management for resolution.

**Impact:**

Incorrect recording of VAT in the general ledger and cash book has resulted in net overstatement of expenditure on the financial statements. This has resulted in fruitless and wasteful expenditure.

**Internal control deficiency**

Financial – Written procedures, authorisations, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation. Operational – Directive, preventive and detective controls are not adequate and focused on achieving efficient resource usage and effectiveness, as measured by the extent to which specific control objectives are achieved.

**Recommendation**

The accounting officer should implement measures to prevent future re-occurrences of incorrect recording of VAT. The municipality should alert the South African Revenue Services (SARS) of possible non compliance with the VAT Act no. 89 of 1991. Further the accounting officer should investigate and evaluate the likely impact on the annual financial statements.

**Management response**

**Auditor’s conclusion**

**52. SCM: Bid award certificates not submitted monthly to the National Treasury (EX.14)**

**Audit finding**

**Requirement:**

Section 74(1) of the Municipal Finance Management Act, No. 56 of 2003 (MFMA) prescribes that the accounting officer of a municipality must submit to the National Treasury, the provincial treasury, the department for local government in the province or the Auditor-General such information, returns, documents, explanations and motivations as may be prescribed or as may be required.

National Treasury MFMA circular 34 which was issued 28 June 2006 requires that municipalities complete and submit monthly reports of contracts awarded above the value of R100 000 (VAT included) not later than 15th of each month or as they are signed.

**Nature:**

Contrary to this statutory requirements of the above, the municipal manager did not submit to the national and provincial treasury, the department for local government in the province or the Auditor-General monthly reports of contracts awarded above the value of R100 000 (VAT included) not later than 15th of each month or as they are signed.

During the year, the following payments were made to the suppliers below for which no monthly reporting was performed:

<b>PAYMENTS MADE TO</b>	<b>AMOUNT (R)</b>
Pro-Care Civils	8 300 925,32
ISA & Partners	3 935 487,63
Capitec Bank	3 658 401,36
24 TM Bokamoso Trading	2 994 599,42
Key Health	2 912 908,33
Inclledon-Dpi(Pty)Ltd	2 317 958,60
DDP Valuers (Pty)Ltd	2 200 000,00
MP Construction	1 972 350,03
Artcon Construction Cc	1 776 045,14
BEOSUMBAR & ASSOCIATES Cc	1 653 000,00
Kinek Cc	1 589 449,63
Leican Engineering Cc	1 198 097,27
Cool Ideas 41(Pty)Ltd	1 125 279,56
Karolo Ya Safrika	1 061 293,86
Pumpshop Africa	1 034 780,63
Johny's Filling Station	1 002 687,54
Big Bravo Construction	987 729,58
The Best Funeral Society	865 667,23
La Health	760 020,30
Macneil Distributors	725 382,00
Aurecon	690 412,51
Vic Computers & Stationers	680 013,84
Limarco Twenty One Cc	590 052,60
Gestetner	587 544,72
Colas Central (Pty) Ltd	579 468,03
<b>TOTAL PAYMENTS IDENTIFIED IN SAMPLE</b>	<b>45 199 555,13</b>

**Cause:**

Inadequate monitoring by management to ensure the requirements of MFMA section 74(1) read with MFMA circular 34 are adhered to.

**Impact:**

Non-compliance with section 74(1) and circular 34 of MFMA causes Setsoto local municipality failure to provide to the National Treasury the statistics on contracts awarded.

**Internal control deficiency**

Financial and performance management - Proper record keeping and record management; the documents supporting the above are properly filed and easily retrievable: Requested information was not available and supplied without any significant delay.

**Recommendation**

As required by MFMA section 74(1) read in conjunction with circular 34, the municipality should ensure that they complete and submit monthly reports for each contract awarded above the value of R100 000 (VAT included) in a format prescribed by ANNEXURE A of MFMA circular 34.

**Management response**

Attached find an updated list of contracts awarded above the value of R100 000 (VAT included) for the period 2009/10. Furthermore take note that the compilation to same was completed on the 14/11/2010 and was also faxed to the Provincial Treasury. Please be advised that the list contains all the reported contracts even the previous financial year; however i highlighted the valid contracts in red. We furthermore acknowledge that we have not complied with the stipulation of the monthly submissions which was caused by the system limitations; however this will also be addressed by the upgrading of the financial system which is due by Dec 2010/Jan 2011. Link to attachment to management's response.K.11.19.

**Auditor's conclusion**

Management's response accepted.

### 53. SCM: Declaration of interest not done by SCM officials (EX.32)

#### Audit finding

Requirement/Limitation:

Section 46(2)(e) of Municipal Supply Chain Management Regulation (MSCMR) prescribes that: A municipal code of ethical standards must stipulate that an official or other role player involved in the implementation of the supply chain management policy of the municipality or municipal entity:

e) Must declare to the accounting officer details of any private or business interest which that person, or any close family member, partner or associate, may have in any proposed procurement or disposal process of, or in any award of a contract by, the municipality or municipal entity.

Nature:

Contrary to the requirements of section 46(2)(e) of the MSCMR no declaration of interests were made by the following employees dealing with Supply Chain Management. Details thereof are:

Based on our review of the Setsoto Bid Committee documentation, it was observed that two committees existed and comprised of the following:

MEMBERS OF THE COMMITTEE	DATE OF APPOINTMENT	JOB DESIGNATION	EMPLOYEE NO	SCM ROLE
Mr MC Mabuya	Not provided	Chief Financial Officer	500375	Chairperson
Me M Molete	Not provided	Director Economic and Community services	500838	Not provided
Mr M Mkhwani	Not provided	Demand and Acquisition Office	100553	Not provided
Mr M Moeng	Not provided	Administration officer	100096	Not provided

Evidence could also not be obtained that the following has been adhered to:

- Determine that all declarations in terms of sub regulation (2) (d) and (e) should be recorded in a register which the accounting officer should keep for this purpose;
- Determine that all declarations by the accounting officer should be made to the mayor of the municipality;
- Contain measures to ensure that appropriate action is taken against any official or other role player who commits a breach of the code of ethical standards.

Cause:

There are not adequate procedures in place to ensure compliance with the requirements of the MSCMR Municipal Supply Chain Management Regulations.

Impact:

Declaration of interests not being made to the accounting officer may result in no action taken against officials who commits a breach of the MSCMR.

#### Internal control deficiency

Oversight responsibility - The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

#### Recommendation

The accounting officer should ensure that the all SCM officials declare their interests to comply with Supply Chain Management requirements.

#### Management response

#### Auditor's conclusion

### 54. Procurement: Insufficient information provided (EX.56)

#### Audit finding

Requirement:

Municipality supply chain management policy dated 12/09/2008 states;

Prohibition on awards to persons in the service of the state.

44. Irrespective of the procurement process followed, no award may be made to a person in terms of the policy.

- a) who is in the service of the state
- b) if that person is not a natural person, of which any director, manager, principal shareholder or stakeholder is a person in the service of the state or
- c) who is an advisor or consultant contracted with the municipality.

Awards to close family members of persons in the service of the state.

45. The accounting officer must ensure that the notes to the annual financial statements must disclose particulars of any award of more than R2000 to a person who is a spouse, child or parent of a person in the service of the state, or has been in the service of the state in the previous twelve months, including

- a) The name of that person
- b) The capacity in which that person is in the service of the state; and
- c) The amount of the award.

**Nature:**

The electronic data of the councillors and employees from the financial system to perform a central CIPRO search was requested from the Municipality but could not be obtained. In a response from the Municipality the internal audit manager said on 13 September 2010 that "the information that you have requested, the administration division does not have it but I have requested human resource division to assist with regard. They have indicated that they are still busy retrieving information from personnel files and as soon as I received it I will email it to you". The information could however not be obtained which resulted in a limitation of scope on the audit.

The Data on all councillors, directors, mayor and employees from the payroll system, which includes the ID number\*, name\*, surname\*, personnel number, position (management level), job title, section/component where employee works, address, telephone number (if on system), banking details, and ID numbers of employee's next of kin or dependants and information/data on all suppliers from the financial system, which includes the supplier name\*, entity number (if available), supplier number, VAT number (if on system), total payments to supplier in current year, address, telephone number (if on system), and banking details could therefore not be obtained against which the data will be utilised to determine whether awards are not made to persons who are in the government.

The electronic data of the councillors and employees from the financial system to perform a central CIPRO search was requested from the Municipality but could not be obtained. In a response from the Municipality the internal audit manager said on 13 September 2010 that "the information that you have requested, the administration division does not have it but I have requested human resource division to assist with regard. They have indicated that they are still busy retrieving information from personnel files and as soon as I received it I will email it to you". The information could however not be obtained which resulted in a limitation of scope on the audit.

**Cause:**

The municipality had system failures during the year, there was VIP system failure resulting in duplicate transactions.

**Impact:**

There might have been awards made to persons who are in the state or suppliers of whom directors/members, principle shareholders or stakeholders are in service or advisors or consultants and employee of the municipality. Awards might have been made to close family members of a person in employ of the state or to partners or associates of officials and other role players. The Annual declarations might not contain all declarations as required by the codes of conduct of councillors/directors and municipal manager.

#### **Internal control deficiency**

The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

#### **Recommendation**

The municipality should provide Auditor General with all the necessary information in order to identify persons who have a relationship with the municipality. Shortcomings in the system should be identified and corrective measures implemented. The SCM policy must be implemented in such a way that is fair, equitable, transparent, competitive and cost effective.

#### **Management response**

We concur with the finding that the current system has failures in giving the required information as is, especially on the data base for suppliers because the printout of same does not reflect the information of the banking details of the relevant suppliers. It is anticipated that the upgrading of the system which is scheduled for December 2010/January 2011, will address all this failures.

**Auditor's conclusion**

Management concur with the finding.

## **55. LED projects: Peach project (Ficksburg) - fruitless and wasteful expenditure incurred (EX.62)**

### **Audit finding**

#### **Requirement / Limitation:**

In terms of paragraph 11 of GRAP 17 – Property, plant and equipment assets are recognised only when it is probable that future economic benefits or service potential associated with the item will flow to the entity and that the cost or fair value of the item can be measured reliably.

In terms of section 125(2)(d) (i) of the MFMA particulars of any material losses and any material irregular or fruitless and wasteful expenditures, including in the case of a municipality, any material unauthorised expenditure, that occurred during the financial year, and whether these are recoverable, should be disclosed in a note to the financial statements.

#### **Nature:**

Through discussion held with Ms. Monare (information and tourism officer responsible for the monitoring of the projects) it was confirmed that the project was not functioning and no evidence of future funds to revive the project could be obtained. The municipality has therefore kept assets for projects which are not functioning or generating income, and expenditure incurred could be regarded as fruitless and wasteful expenditure. Inspection of the general ledger revealed total expenditure of R118 098,05 for the 2009/2010 financial year.

The assets of the peach project have been deteriorating for the last three financial years and the municipality is not yielding any economic benefit or service potential from these assets and it therefore distort the assets value in the financial statements. It could be obsolete or redundant as well.

These assets are still that of the municipality and have not been unbundled since Directive 4 measurement provides relief in this regard.

A further concern noted, was that the total cost for the Peach project building as per asset register was R7 518 241,12. The inspection of the site in Ficksburg on 22 October 2010 revealed only one medium sized building, fencing and the peach trees. These could not substantiate the cost as disclosed in the assets register at 30 June 2010, especially since it was confirmed through discussion with Ms. Monare that the trees were supplied by another LED project, the nursery in Ficksburg.

#### **Cause:**

The project does not function since a reliable source of funding cannot be obtained.

#### **Impact:**

The assets included in the assets register is overstating the total assets to the cost price of R7 518 241,12 at year end.

The identified overstatement of assets applies to all the LED projects and therefore the total overstatement of the cost price of assets are R10 716 689,89.

This is the actual misstatement and will therefore not be extrapolated over the full asset register.

Fruitless and wasteful expenditure is understated by R118 098,05.

This is an anomalous misstatement and will therefore not be extrapolated over a population.

### **Internal control deficiency**

Operational – Directive, preventive and detective controls are not adequate and focused on achieving efficient resource usage and effectiveness, as measured by the extent to which specific control objectives are achieved

### **Recommendation**

These assets are not income generating and therefore should not be recognised as an asset in the financial statements of the municipality. The matter should be placed before council for a directive as to the use of these assets and make the necessary adjustments to the financial statements.

The expenditure (R188 098,05) is considered to be of a fruitless nature and adequate disclosure must be made in the financial statements.

### **Management response**

No management response received.

**Auditor's conclusion**

Since no response from management was received, the matter is reported as it is.

**56. LED projects: Documents not received (EX.63)****Audit finding****Requirement/Limitation:**

Section 62(1)(b) of MFMA prescribes that the accounting officer for a municipality is responsible for managing the financial administration of the municipality and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norm and standards.

**Nature:**

The following information was requested with request for information number 21 issued on 12 October 2010:

1. List of all LED projects initiated during the financial year 1 July 2009 to 30 June 2010.
2. List of ongoing (current) and incomplete (planned but not yet implemented) LED projects which have been started previous years.
3. Expenditure incurred for each project during the current year 2009/2010.
4. Income received for each project of LED during the current financial year.
5. Owners of each projects.
6. Obligations by Municipality towards each project.
7. Accountability by Municipality for each projects.
8. Status of the projects and planning for way forward.
9. All monthly reports (as per section 16 of DoRA) submitted to the applicable departments.

In addition to this, the following was verbally requested from Ms. Malete and Ms Brenda Monare on 14 October 2010:

1. The supporting documentation of the outcome for the Bio Fresh (Pty) Ltd court case.
2. Rental agreements with the beneficiaries of Thuba Makote Bakery Project (Ficksburg), Waste Recycling Project (Senekal), Piggery Project (Clocolan) and Phaahamisang Baahi Poultry Project (Senekal)

None of the above has been received up to date. The lack of supporting documents as requested for audit purposes could result in a lack of scope on the audit extent of the impact of the LED projects on the annual financial statements (R10 716 689) .

**Cause:**

Management do not keep accurate information of the LED projects.

**Impact:**

Could result in a limitation of scope on the audit, since the existence of the LED assets could not be confirmed and the accuracy, existence and completeness of expenses and revenue could also not be confirmed. The limitation amounted to R10 716 689 as reported in exception 52, 53 and 62.

**Internal control deficiency**

Financial and performance management - Proper record keeping and record management; the documents supporting the above are properly filed and easily retrievable: Requested information was not available and supplied without any significant delay.

**Recommendation**

Required documentation for the LED projects should be submitted for audit purposes as a matter of urgency.

**Management response****Auditor's conclusion****57. VAT: Incorrectly claimed on PPE acquisitions (EX.77)****Audit finding****Requirement/Limitation:**

Section 65(2)(f) of the MFMA states that the accounting officer of a municipality must take all reasonable steps to ensure that the municipality complies with its tax, levy, duty, pension, medical aid, audit fees and other statutory commitments.  
 (Ex.77) VAT can only be claimed if supported by a valid tax invoice, as required by section 20(4) of the Value Added Tax Act of South Africa, 1991 (Act of 1991) VAT Act.

**Nature:**

Through performance of our audit procedures on asset acquisitions, the following issues relating to Value added tax (VAT) were identified:

1) For the following selected payments, the VAT cannot be claimed, since the invoices does not qualify as a valid tax invoice:

DATE	GENERAL LEDGER AMOUNT	CHEQUE NUMBER	DESCRIPTION	CONTRACTOR / VENDOR	Amount R
11/27/2009	12 288,67	K7517	Toshiba Satelite Core 2 Duo VHP note book	Mustek	1 696,66
6/3/2010	60 840,00	K9969	Deposit on Posmate III pressure seal machine	Vic computers & stationers	8 400,00
11/27/2009	11 274,72	K7517	Toshiba Satelite Core 2 Duo VHP note book	Mustek	1 596,56
11/27/2009	12 288,62	K7517	Toshiba Satelite Core 2 Duo VHP note book	Mustek	1 696,66
7/31/2009	277 977,77	K5691	Upgrading of oxidation pond	Isa & Partners	38 916,89
9/11/2009	636 299,99	K5694	Upgrading of oxidation pond	Big Bravo Construction	89 082,00
7/31/2009	476 434,26	K7112	355 cl 16 upvc pipe	Macneil Distributors	66 700,80
3/17/2010	121 271,40	k8892	Upgrading of Marquard oxidation ponds	MP Construction	16 978,00
12/1/2009	98 786,67	K7537	Augmentation of raw water supply	Josan Construction	13 830,14
7/31/2009	161 985,49	K5684	Construction of pipeline and reservoir	Ninham Shand Raadgewende Ing	22 677,97
12/1/2009	922 322,31	K7536	Augmentation of Raw materials	Inclledon DPI (Pty) Ltd	129 125,12
12/1/2009	66 635,45	K7540	Construction of bus route and storm water drainage	Josan Construction	9 328,96
12/23/2009	661 535,32	K7821	Augmentation of Raw materials	24 TM Bokamoso Trading	92 614,94
3/17/2010	39 169,24	K8894	Augmentation of raw water supply - construction of pipelines and reservoir	Ninham Shand Raadgewende Ing	5 483,69
5/7/2010	752 068,94	K9515	Augmentation of raw water supply	Inclledon DPI (Pty) Ltd	105 289,65
6/30/2010	80 897,06	K0385	Construction of pipeline materials (Services rendered)	Cool Ideas 41 (Pty) Ltd	11 325,59
4/8/2010	479 254,05	K9173	Installation of water meter (5684 meters)	Isa & Partners	67 095,57
4/8/2010	410 429,27	K9172	Installation of water meters	Isa & Partners	57 460,10
9/4/2009	59 333,05	K6112	Sewer pump station	Cool Ideas 41 (Pty) Ltd	8 306,63
12/9/2009	242 366,43	K7637	Construction of rising main	Phello Construction	33 931,30
6/14/2010	370 062,14	K0023	Construction of sewer network (toilets completed)	Karolo ya safrika	51 808,70
12/3/2009	97 818,30	K7566	Construction of pump station	Ike metal works	13 694,56
12/23/2009	19 274,02	K7816	Construction of pump station no.3	New Generations Ready mix	2 698,36
3/31/2010	205 830,01	K9136	Construction of sewer pulsation	Kinek CC	28 816,20
5/20/2010	50 034,62	K9661	Bucket eradication	Karolo ya safrika	7 004,85
6/14/2010	115 377,53	K0022	Construction of sewer pump station	Seabo Construction	16 152,85
10/23/2009	89 516,92	K6933	Upgrading of waste water treatment	Isa & Partners	12 782,91
				<b>TOTAL</b>	<b>914 495,66</b>

2) For the following selected payment, the VAT can be claimed, since the invoice qualifies as a valid tax invoice. However, the net amount was included in the general ledger:

DATE	GENERAL LEDGER AMOUNT	CHEQUE NUMBER	DESCRIPTION	CONTRACTOR / VENDOR	R
10/23/2009	152 190,00	K6937	Bucket eradication	Isa & Partners	18 690,00

**Cause:**

The responsible officials do not check whether the invoices are valid tax invoices and whether the VAT numbers are valid before the payment is authorised.

**Impact:**

As per the VAT law, VAT cannot be claimed on payments made on invoices that are not valid tax invoices.

Assets are therefore understated by R895 805,66 (R914 495,66 less R18 690,00). When extrapolated over the full population, the error amounts to R2 463 465,57.

The calculation thereof is as follows:

Factual error = R895 805,66

Total number of items in the sample = 52

Total number of items in the population = 143

Therefore,  $143/52 \times R895\ 805,66 = R2\ 463\ 465,57$

The municipality incurred fruitless and wasteful expenditure amounting to R914 495,66 and this should be disclosed in the financial statements. When extrapolated over the full population, the error amounts to R2 514 863,07.

The calculation thereof is as follows:

Factual error = R914 495,66

Total number of items in the sample = 52

Total number of items in the population = 143

Therefore,  $143/52 \times R914\ 495,66 = R2\ 514\ 863,07$

**Internal control deficiency**

Leadership - Decisive action to: mitigate emerging risks, implement timely corrective measures and address non-performance: Control weaknesses are not analysed, and appropriate follow-up actions are not taken that address root causes.

**Recommendation**

The internal controls of the municipality should be improved to identify instances where the supplier displays the incorrect VAT number on their invoice and to ensure that this is reported to the supplier and payments are only made when the municipality has a valid tax invoice and thereby ensure that fruitless and wasteful expenditure is not incurred.

The amounts overpaid should be recovered from the suppliers if no evidence exist that they were registered VAT vendors at time the invoice was paid in terms of section 32(2) of the MFMA.

**Management response**

No management response received.

**Auditor's conclusion**

Since no response from management was received, the matter is reported as it is.

**58. EX.145 - Unauthorised Expenditure: Total expenditure incurred in excess of approved budget**

**Audit finding**

**Requirement:**

Section 125(2)(d)(i) of the MFMA states that the notes to the annual financial statements of a municipality must disclose particulars of any material unauthorised expenditure that occurred during the financial year.

Unauthorised expenditure in terms of section 1 of the MFMA is any expenditure incurred by a municipality otherwise than in accordance in sections 15 or 11(3) and includes overspending of the total amount appropriated in the municipality's approved budget.

**Nature:**

On comparing the approved budget to the actual performance of the municipality, the following variance was identified:

	<b>Actual R</b>	<b>Approved Budget Amount R</b>	<b>Variance R</b>	<b>Variance %</b>
<b>Total Expenditure</b>	<b>302 262 013</b>	<b>230 758 711</b>	<b>-71 503 301</b>	<b>30.99%</b>

The above unauthorised expenditure was not disclosed in a note to the financial statements as is the requirement of section 125(2)(d)(i) of the MFMA and results in a misstatement in the financial statements.

**Cause:**

This is caused by management not identifying pertinent information and disclosing it as such on the financial statements.

**Impact:**

A misstatement in the financial statements to the value of R71 503 301.

**Internal control deficiency**

Risk identification and management - Internal controls are not selected and developed to prevent / detect and correct material misstatements in financial reporting and reporting on predetermined objectives.

**Recommendation**

Management must disclose the unauthorised expenditure that has been identified as a note to the financial statements in accordance with section 125(2)(d)(i) of the MFMA.

**Management response**

**Auditor's conclusion**

## Payables

### 59. Creditors: No explanations for creditors large and unusual balances (incorrect allocations) (EX.82)

#### Audit finding

#### Requirement/Limitation:

Section 65(2)(c) of the MFMA states that the accounting officer must take all reasonable steps to ensure that the municipality has and maintains a system of internal control in respect of creditors and payments.

#### Nature:

Subsequent to request for information 38 of 2010, no explanations or supporting documentation could be obtained from management to substantiate the following balances which we deem to be large and/or unusual:

REFERENCE	NAME	VAT REG NUMBER	BALANCE AT YEAR-END (R)	DR/CR	NATURE
100998	Oos Vrystaat Kaap Koop	4490135920	4 093,00	DR	Unusual: Creditor with a debit balance
100043	Marwin Marketing	4150117275	274 227,00	CR	Large: balance above R75 000
100881	Becor Electrical	4210155471	175 297,37	CR	
104516	Beyond The Limits	Not specified	104 260,00	CR	
104843	Roadfix SA	4140226731	79 275,60	CR	
202858	VIC Computers & Stationers	4810225138	85 078,20	CR	
203207	Sefako Trading Enterprise	Not specified	89 100,00	CR	
204782	Bloemfontein HardChrome CC	4840191391	89 687,11	CR	
300137	Pens/Fonds vir Mun Raadslede	Not specified	76 291,44	CR	
201060	KWEZI V3	4360121554		-N/A	Creditor had balance of R1033781.42 at end of 2008/09 but only one payment of R18 107.43 (K8891) was made to supplier in 2009/10 yet creditor has a nil balance at year-end.
100978	BEARING MAN	4360102521	3 489,33	CR	Supplier not settled from previous year. No transactions with supplier during the year.
101002	FICKSBURG NUUS	Not specified	19 622,25	CR	Supplier not settled from previous year. No transactions with supplier during the year.
202931	JOBE CONSTRUCTION & DEVELOPE	4680216589		-N/A	Supplier had a balance of R2795347.23 at end of 2008/09 however only one payment of R59 319.44 (K7645) was made in 2009/10 yet creditors balance at end of 2009/10 is nil.
203566	BASADI IKETSETSENG SIBAMU JV	4690186392		-N/A	Creditors balance at end of 2009/10 is nil but no payments were made to supplier during the year yet balance at end of 2008/09 was R430 143.92.
203707	F.N. KHOSANA TRANSPORT cc	4190225781		-N/A	Creditors balance at end of 2009/10 is nil but no payments were made to supplier during the year yet balance at end of 2008/09 was R308 085.

We are therefore unable to determine whether the above creditors balances are appropriately valued and that the municipality is obliged to settle the said balances. Furthermore, we unable to determine the effectiveness and efficiency of the internal controls which the municipality has in place for the purpose of maintaining the creditors of the municipality.

We extrapolate the error as follows:

Total Population Value (A)	18 459 238,00
Total Sample Size (Value) (B)	18 459 238,00
Total Error in Sample (C)	4 549 250,14
% Error in Sample (D)	25%
<b>Projected Error</b>	
Overstatement Projected (A x D)	<b>5 722 363,78</b>
Actual Error	4 549 250,14
Projected Amount	1 173 113,64

**Cause:**

Lack of functional internal controls over creditors and payments.

**Impact:**

The impact of this lack of sufficient controls could be a possible misstatement of the accounts payable balance in the general ledger at year end.

The municipality did not apply the requirement of paragraph 47 of IAS 39: *Financial Instruments Recognition and Measurement*

**Internal control deficiency**

*Proper record keeping and record management* - Requested information was not available and supplied without any significant delay.

*Risk identification and management* - Internal controls are not selected and developed to prevent / detect and correct material misstatements in financial reporting and reporting on predetermined objectives.

**Recommendation**

Management must implement internal controls which enable the municipality to comply with the requirements of section 65(2)(c) of the MFMA. Furthermore, management must provide valid explanations with supporting documentation to justify the said creditors balances reflected on the creditors listing as at financial year-end.

**Management response**

**Auditor's conclusion**

## Performance information

### 60. Governance Committees: Dysfunctional performance audit committee (EX.2)

#### Audit finding

##### Requirement/Limitation:

In terms of paragraphs 14(3)(a) and 14(4(a) of the Local Government: Municipal Planning and Performance Management Regulations, 2001 a performance audit committee must meet at least twice during the financial year of the municipality concerned and must review the quarterly reports submitted; review the municipality's performance management system and make recommendations in this regard to the council of that municipality; and at least twice during a financial year submit an audit report to the municipal council concerned.

##### Nature:

The performance audit committee was dysfunctional during the year and as a result did not discharge its responsibilities in terms of the regulatory requirements. It did not meet once during the year under review.

##### Cause:

The accounting officer did not implement measures to establish a functional performance audit committee.

##### Impact:

Non-compliance with the Performance Regulations of 2001 causes the committee failure to perform prescribed duties and functions effectively.

#### Internal control deficiency

The performance audit committee did not fulfil its responsibilities as set out in legislation.

#### Recommendation

The council must monitor the performance of the performance audit committee and take appropriate steps if there is evidence that does not operate in terms of its mandate.

#### Management response

This communiqué serves to address the Auditor General's audit findings that were received by the PMS unit on the 22<sup>nd</sup> September 2010.

Previously the Municipality was utilizing the District Performance Audit Committee until the Council established its own committee on the 31 March 2010. Only two members were appointed and it also resolved that the other two members should be recruited within the municipal jurisdiction.

The process has been completed and the CVs of the possible candidates have been handed over to the Municipal Manager for appointment and first meeting will be convened.

This will also ensure that the challenges that were met in the past regarding the non-functioning of the performance audit committee are addressed.

#### Auditor's conclusion

## **61. AoPI: Performance Report not submitted timely for audit purposes (EX.36)**

### **Audit finding**

#### **Requirement/Limitation:**

In terms of section 46 of the Municipal Systems Act, a municipality must prepare for each financial year a performance report reflecting:

- a) The performance report of the municipality and of each external service provider during that year.

Section 126(3) of the MFMA prescribes that the Auditor-General must audit the financial statements of the municipality and submit an audit report (including performance information) on those statements to the accounting officer of the municipality within three months of receipt of those statements.

Paragraph 38 of the audit engagement letter dated 27 July 2010 to the accounting officer stated that in order for the auditors to meet the statutory reporting deadlines, the auditors are dependent on receiving the municipality's financial statements and performance information within two months after the end of the financial year, that is, by 31 August 2010.

#### **Nature:**

The performance report of the municipality for the 2009/10 financial year was not received at 31 August 2010 together with the annual financial statements. As at 22 September 2010, the report had not been received for audit purposes.

In the absence of the performance information by the municipality or a delay in the submission thereof, we are unable to carry out the audit of performance information timely in order to meet the legislative requirement imposed on the auditor general to audit the financial statements and submit an audit report on those statements to the accounting officer of the municipality within three months of receipt of the statements in accordance with section 126(3) of the MFMA.

Paragraph 5 of MFMA circular 2009/10 states that if the performance information is not submitted by 15 September 2010 it would be included in the audit report as non compliance..

#### **Cause:**

The municipality did not ensure it complies with the requirements of section 46 of the Municipal Systems Act and the audit engagement letter as agreed that the performance information be submitted by 31 August 2010.

#### **Impact:**

The statutory reporting deadlines for submitted the performance information were not adhered to. Service delivery could not be evaluated.

### **Internal control deficiency**

Financial and performance management - The annual financial statements and annual performance report were not submitted for auditing as per the legislated deadlines.

### **Recommendation**

Management must submit the performance information of the municipality to the auditors together with reasons why the information could not be submitted by 31 August 2010 as agreed upon in the audit engagement letter with the accounting officer.

### **Management response**

This communiqué serves to address the Auditor General's audit findings that were received by the PMS unit on the 22 September 2010.

The Annual Performance Report

The matter will be addressed during the current financial year.

### **Auditor's conclusion**

As at 12 October 2010, the

date on which the response to this query was received from management of the municipality, the annual performance report was still not available for audit purposes.

Paragraph 5 of MFMA Circular 12 of issued by National Treasury to Municipal Managers and Chief Financial Officers of municipalities and municipal entities, states the following points:

\* The performance information should have been submitted by 31 August 2010 together with the audit work file and the Annual Financial Statements.

\* If this information is not provided to the AGSA by 15 September 2010, the AGSA will not finalize the auditing of the said information and the non-compliance will be reported in the audit report.

\* Municipal Managers and Chief Financial Officers of municipalities and municipal entities are requested to ensure that the performance information meets all the regulatory requirements, is useful and reliable.

\* In the 2009/10 audit report there will not be a separate audit opinion on performance information but an indication on what the impact on audit opinion would have been in the management report.

In view of the above, the matter will remain in the audit report for 2009/10 audit report due to the fact that the performance information of the municipalities was not available for audit purposes as at 12 October 2010.

## **62. AoPI: Adjustment Budget (2009/10) not prepared in prescribed format and not approved by council (EX.37)**

### **Audit finding**

#### **Requirement/Limitation:**

In terms of section 28(3) and 28(4) of the MFMA a municipality may revise an approved annual budget through an adjustment budget, the adjustment budget must be in a prescribed form and only the mayor may table the adjustment budget in the municipal council.

In terms of section 21 of the MFMA budget and reporting regulations, an adjustment budget and supporting documentation of a municipality must be in a format specified in schedule B of these regulations and include all required tables, tables, charts and explanatory information, taking into account any guidelines issued by Minister. Furthermore, section 23(1) of the afore-mentioned regulations prescribes that an adjustments budget may be tabled in the municipal council at any time after the mid-year budget and performance assessment has been tabled in council, but not later than 28 February of the current year.

#### **Nature:**

The mid-year assessment budget was obtained from the Internal Audit Manager on 5 August 2010. Through an inspection of the mid-year assessment budget, it was observed that it had not been prepared in the format prescribed by section 21 of the Municipal Finance Management Act Municipal budget and reporting regulations read with section 28 of the MFMA. Furthermore, we were unable to determine the date on which the adjustment budget was compiled.

We were further informed that the mayor has not tabled in the municipal council, the adjustment budget for approval and adoption thereof. We therefore inspected the minutes of the meetings of the municipal council seeking corroborative evidence that indeed the mayor has not tabled the adjustment budget in the municipal council. The result of that inspection of the minutes confirmed that the mayor has not tabled the 2009/10 adjustments budget in the Council by 30 June 2010.

#### **Cause:**

Failure and a lack of proper monitoring by management to implement the legislative requirements for preparing an adjustments budget.

#### **Impact:**

Non-compliance with section sections 28(3) and 28(4) of the MFMA and section 21 of the MFMA municipal budget and reporting regulations. The absence of appropriate procedures followed for the adjustment budget may result in the concealment of unauthorized expenditure.

### **Internal control deficiency**

Oversight responsibility - The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

### **Recommendation**

Comments should be submitted why the municipality's adjustment budget has not been tabled in council and not prepared in a format required by the MFMA municipal budget and reporting regulations. The accounting officer must then ensure that the municipality complies with section 28(3) and 28(4) of the MFMA to prepare the adjustment budget timely if necessary and also have the mayor table the adjustment budget in council within the prescribed timeframes.

**Management response**

**Auditor's conclusion**

### **63. AoPI: Annual Report of 2008/09 not tabled in council (EX.5)**

#### **Audit finding**

##### **Requirement/Limitation:**

In terms of sections 127(2) and 127(3) of the MFMA, the mayor of a municipality must, within seven months after the end of a financial year, table in the municipal council the annual report of the municipality. If the mayor, for whatever reason, is unable to table in the council the annual report of the municipality within seven months after the end of the financial year to which the report relates, the mayor must promptly submit to the council a written explanation setting out the reason for the delay together with any components of the annual report which are ready and submit to the council as soon as possible the annual report or all the outstanding components of the annual report.

##### **Nature:**

The accounting officer did not comply with this requirement of the MFMA because no evidence exist that the 2008/09 annual report was finalised and submitted to the council for consideration before any comments could be invited from the community to make representations in connection with the annual report.

##### **Cause:**

Transgression of the MFMA is as a result of the accounting officer not having adequate controls in place to ensure compliance with laws and regulations.

##### **Impact:**

The accounting officer did comply to section 127(5) of the MFMA which negatively affect accountability with regard to duties imposed by the MFMA.

##### **Internal control deficiency**

The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

#### **Recommendation**

The accounting officer must ensure compliance with the section 127 (5) of MFMA and adhere to the basic objective of transparency and accountability laid down in by MFMA. Reasons why the annual report was not tabled by 31 January 2010 should also be made available for audit purposes.

The 2008/09 final annual report should be submitted to the AGSA as soon as possible.

#### **Management response**

This communiqué serves to address the Auditor General's audit findings that were received by the PMS unit on the 22 September 2010.

The Annual Report 2008/2009 was not tabled to council by 31 January 2010 as required by legislation; however it was tabled on the 27 May 2010. The delay was caused by the report that was returned by the Auditor General's office where KPIs and targets and on the SDBIP were not talking to the actual in the Performance report and no explanation was given by Departments.

The matter will be addressed during the current financial year and the outstanding information on the final annual report will be submitted to AGSA as soon as possible.

#### **Auditor's conclusion**

Management agrees with the finding by the auditors. Therefore, the matter will remain in the management report.

#### **64. AoPI: Monitoring of the IDP not done (EX.7)**

##### **Audit finding**

###### **Requirement/Limitation:**

In terms of section 34(a) of the Municipal Systems Act, 2000 (MSA) the municipal council must review the integrated development plan that covers the components outlined in section 41 of the MSA at least once in a year.

###### **Nature:**

Contrary to the requirements sufficient appropriate audit evidence could not be obtained that all departments of the municipality regularly report on their performances for all staff and suppliers and that the results of those reviews were submitted to the council for action.

###### **Cause:**

Systems and processes are not adequately designed and implemented that could ensure that council discharge its responsibilities set out in the MSA.

###### **Impact:**

By failing to regularly reporting on objectives of the IDP, council risks not achieving those objectives as monitoring is not taking place to identify shortcomings and challenges for any remedial steps to be taken timeously to ensure service delivery.

##### **Internal control deficiency**

The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

##### **Recommendation**

Evidence should be submitted that quarterly reviews are taking place and that the council did consider the IDP for the year under review.

Responsible managers should submit quarterly performance progress reports to the IDP manager who should consolidate all reports and report to the accounting officer on a quarterly basis. The accounting officer should then table quarterly progress reports to council through appropriate channels. Annual evaluation of the IDP and presentation of the evaluation report should be performed prior to drafting of the annual performance report.

##### **Management response**

This communiqué serves to address the Auditor General's audit findings that were received by the PMS unit on the 22 September 2010.

The legislation says responsible managers should submit the quarterly performance progress reports to the PMS unit, however certain divisions did not comply with the legislation and had ignored the communication that were sent to them. The change of the administration had also contributed to the challenges.

The matter will be addressed during the current financial year.

##### **Auditor's conclusion**

Management agrees with the finding by the auditors. As a result, the matter will remain in the management report.

**65. AoPI: Performance monitoring and evaluation not done for operational staff (EX.9)**

**Audit finding**

**Requirement/Limitation:**

The performance management system of the municipality must commensurate its resources and promote a culture of performance management amongst its administration in terms of section 38(a) and (b) of the Municipal Systems Act, 2000 and the municipality must monitor the performance in terms of section 40.

**Nature:**

Contrary to the requirements, except for the municipal manager and managers reporting to him in terms of section 57, no appropriate systems are in place that ensure that the performance of the staff of the municipality are reviewed continuously and steps taken to address any shortcomings identified during this process.

**Cause:**

The performance management system for the evaluation of staff performances are not adequately designed and implemented.

**Impact:**

Poor performance and other shortcomings are not identified and appropriately dealt with that could ensure that the objectives of the municipality are achieved.

**Internal control deficiency**

*Leadership* - Performance is not measured.

*Oversight Responsibility* - The accounting officer does not evaluate whether management has implemented effective internal controls by gaining an understanding of how senior management has met its responsibilities.

*Financial and Performance Management* - Management and staff do not fulfil their duties and responsibilities.

**Recommendation**

The performance of all staff of the municipality must be monitored and report on in terms of the regularity requirements of the Municipal Systems Act.

## **Management response**

This communiqué serves to address the Auditor general's audit findings that were received by the PMS Unit on the 22 September 2010

During council meeting of the 30 May 2008, the council adopted the EPAS as the tool to be used for performance monitoring and evaluation to all staff after the policy has been workshop to them. However the municipality should have a user license to have the system in place for all other employees.

The procurement of the system will be budgeted for, on January 2011 when the municipality revised the budget and the amount of R 150 000.00 will be included.

## **Auditor's conclusion**

Management agrees with the finding, therefore the matter will remain in the management report. The matter will be followed up in the 2010/11 audit.

## **Receivables**

### **66. Wasteful Expenditure: Delays during the audit (EX.124)**

#### **Audit finding**

Submission and reply to requests for information and exceptions issues within three days from the date of issue. The terms were agreed in paragraphs 39 and 40 of the engagement letter, dated 27 July 2010, agreed to by the Municipal Manager on 16 August 2010.

The audit team was scheduled to finalize their fieldwork at the municipality on 5 November 2010. We communicated to you on several occasions that no new information would be accepted after 31 October 2010, but owing to the late receipt of important information, the audit team had to come back to finalize outstanding work. Details thereof are:

(1) Time wasted = R188 190.10: Additional time as a result of coming back = 41 hrs per member x rate = R116 932, R17 984 for subsistence costs, accommodation and travelling. Delays that were encountered during the audit, that arise from staff not available, information that could not be obtained, etc amounted to lost hours of 138.6 amounting to R48 996.10 plus (1.5 hrs x rate = R4 278) per team member for working to sort the expenditure vouchers, meter books, salary run reports, etc.

(2) Request for information was issued during the audit for information that was not forthcoming.

(3) According to our records the response rate to our communication of audit findings is a mere 30% with only 33 replies to 107 exceptions raised on the audit. See annexure attached for the details thereof.

The progress of the audit was discussed weekly on the following dates and our concerns regarding the slow response to our requests for information and communication of audit findings. Notwithstanding, the situation at present is that unless the information are submitted, the audit will be having numerous limitation on the scope which all contribute to us not getting sufficient appropriate audit evidence for certain transactions.

#### **Cause:**

Lack of adequate follow up actions by the municipality to follow up and respond to audit queries.

#### **Impact:**

Any additional time spent by the team ultimately resulted in an avoidable additional costs of R188 190 which could be considered as fruitless and wasteful as it could be avoided.

#### **Internal control deficiency**

Control activities- rules not complied with. Management did not respond in time to requests for information and exceptions issued that resulted in additional costs incurred on the audit which has a subsequent impact in the agreed deadlines as agreed in the engagement letter and audit strategy document.

## Recommendation

Management should take note of this situation and make appropriate steps to address the issues and take cognizance of the fact that any delays further result in additional costs for the municipality.

## Management response

## Auditor's conclusion

### 67. Receivables: Doubtful Debts still not handed over (EX.17)

#### Audit finding

##### Requirement/Limitation:

Credit Control Policy section 8 approved on 26 September 2006, stipulates legal action against debtors outstanding for longer than 90 days should be taken by the municipality.

##### Nature:

During a follow up of the prior year audit finding (exception 91), it was noted that doubtful debts were still not handed over as required by the policy. Only one account out of those reported the previous year was handed over but the money has not been recovered. This matter was discussed with the chief credit control clerk (Mrs. Bettie Manyama) on 24 August 2010. The official indicated that there is an approved list by the municipal manager of accounts that has been handed over to the Attorneys. Details thereof are:

ACCOUNT NUMBER	120 DAYS-BALANCE AS AT 20 OCTOBER 2009 R	120 DAYS-BALANCE AS AT 24 AUGUST 2010 R
70020405	21 616,6	27 784,02
40020415	23 310,23	29 678,13
90020427	18 345,45	24 181,96
20038348	11 528,79	29 306,58
50020407	13 219,39	18 289,55
80020411	6 912,49	11 439,35
60020413	14 924,88	20 298,13
20020417	6 694,56	11 140,39
60020420	5 255,27	9 191,84
80051705	2 825,46	4 874,02
10020418	2 803,43	7 415,91
60054399	4 931,15	31 599,03
	<b>110751,1</b>	<b>225198,91</b>

##### Cause:

Lack of adequate monitoring by the municipality to comply with the credit control policy.

##### Impact:

The bad debts amount will increase and the municipality might never recover the money at all.

## Internal control deficiency

Operational – Directive, preventive and detective controls are not adequate and focused on achieving efficient resource usage and effectiveness, as measured by the extent to which specific control objectives are achieved.

### Recommendation

The municipality should hand over the debtors as soon as possible. More delays would result the debtors be unable to pay as the account and it could lose its identity. It should be ensured that the requirements of the policy are adhered to.

### Management response

Account No	120 days 20 Oct 2009 R	120 days 24 Aug 2010 R
80051705	2 825,46	4 874,02
60054399	4 931,15	31 599,03

The above accounts are closed, for account 80051705 is re-allocated to a new owner and account 60054399 the tenant have moved out and we did send the letter of demand.

The re-allocated account will be written off as per credit control policy page 114 clause 4.14.

Account No	120 days 20 Oct 2009 R	120 days 24 Aug 2010 R
10020418	2 803,43	7 415,91

The above account is indigent and the outstanding amount will be written off as per indigent policy that was implemented since 26 September 2002 revised on 5 February 2009 page 185 no 7 on 7.1:

Account No	120 days 20 Oct 2009 R	120 days 24 Aug 2010 R
70020405	21 616,60	27 784,02
40020415	23 310,23	29 678,13
90020427	18 345,45	24 181,96
20038348	11 528,79	29 306,58
50020407	13 219,39	18 289,55
80020411	6 912,49	11 439,35
60020413	14 924,88	20 298,13
20020417	6 694,56	11 140,39
60020420	5 255,27	9 191,84

As it was mentioned before that we did hand over long overdue accounts to the attorneys even though the selected ones from the previous audit only one was handed over that shows that the handing over was done, the proof was submitted to the auditor as proof.

For the remaining accounts that are outstanding and were supposed to be handed over will be done immediately when the new attorneys are appointed as the previous ones contract has expired.

For the remaining accounts that are outstanding and were supposed to be handed over will be done immediately when the new attorneys are appointed as the previous ones contract has expired.

### Auditor's conclusion

Exception still stands as the system of handing over of debtors is very slow at the municipality. Account numbers 70020405, 40020415, 90020427, 20038348, 50020407, 80020411, 60020413, 20020417 and 60020420 not handed over for collection.

## **68. Unspent Conditional Grants: No register of grants received and unspent portion not cash-backed (EX.49)**

### **Audit finding**

#### **Requirement/Limitation:**

Section 62 (1) (a) and (b) of MFMA prescribes that the accounting officer for a municipality is responsible for managing the financial administration of the municipality and must for this purpose take all reasonable steps to ensure:

- (a) that the resources of the municipality are used effectively, efficiently and economically,
- (b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norm and standards.

Section 26(1) of the Divisional of Revenue Act No.12 of 2009 (DoRA) prescribes that despite anything to the contrary contained in any law, an allocation referred to in Schedule 4, 5, 6, 7 or 8 may only be utilised for the purpose stipulated in the Schedule concerned.

Section 47(2) of DoRA states that any transfer made or spending of an allocation in contravention of this Act constitutes irregular expenditure in terms of the Municipal Finance Management Act.

#### **Nature:**

a) Request of information no. 6 of 2010 was issued on 17 August 2010 to Ms Selina Lebeko: Manager Internal Audit which could not be submitted within three days to the Auditor-General. The information requested was the following:

1. Register listing all conditional grants received for the 2009/2010 year with supporting documentation.
2. Reconciliation of unspent portion on conditional grants for 2009/2010 as referred to note 23 in the 2008/2009 financial statements, including supporting documentation.

b) This matter was also discussed with the Manager: Financial Statements (Mr Neil van Tonder) on 13 September 2010 that the unspent portion is not cash-backed as from the R32 205 544 disclosed in note 14 of the financial statements can only be supported by investments of R14 367 883 as disclosed on the face of statement of financial position. The fact that no reconciliations could be obtained regarding the unspent portion of conditional grants was also reported in the prior year, which led to the qualification thereof in the audit report. This was communicated in Ex.67 of the prior year and in paragraph 14.4 of the management letter.

Although it was noted during discussions held with Mr van Tonder that most of the problems arisen in prior years, the fact remains that no reconciliations could be provided and no supporting documentation could be obtained.

The fact that the unspent portion is not cash-backed indicates that the municipality uses conditional funds for purposes not intended for which is in contravention with DoRA.

#### **Cause:**

Lack of controlled spending which lead to conditional grant income being spent for operational purposes.

#### **Impact:**

In absence of the supporting for the committed unspent conditional grants, the accuracy, validity, existence and completeness of the amount of could not be verified. The unspent conditional grant may be materially misstated.

Further, conditional grants utilised for purpose other than those as per the conditions attached to it is non compliance of DORA and may impact future inflow of conditional grant to municipality.

Also, non-compliance with the act also constitutes the expenditure to be irregular as in accordance with section 47(2) of DoRA.

### **Internal control deficiency**

Financial performance and management: Proper record keeping and record management; the documents supporting the above are properly filed and easily retrievable - Requested information was not available and supplied without any significant delay.

Leadership: Oversight responsibility - The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

## Recommendation

Management should ensure that unspent grants are cash backed and that grants are only utilised for the purposes intended for. A detailed/reconciliation and action plan of the administration of unspent conditional grants should also be submitted to enable the municipality to meet their obligations in this regard in the future.

Compliance to the DoRA is advised and mechanisms should be improved that would ensure full compliance. Irregular expenditure should be adequately disclosed in the financial statements.

The accounting officer should also submit the supporting documents for the committed conditional grant in order to verify the same and assess its accuracy, validity, existence and completeness.

## Management response

1. The schedule list all the conditional grants received and supporting documentation is provided in the working papers under note 23.
2. The PMU is currently in the process of reconciling all the MIG payments and it is anticipated to be completed by 31 December 2010.

## Auditor's conclusion

Management comments are noted, however due to the fact that reconciliations will only be completed during December 2010, the audit issue will remain. No supporting documentation is attached as mentioned under note 23 of the audit working papers. Also, no mentioning is made by management regarding the fact that the unspent grants is not cash-backed, non-compliance occurred in accordance with DoRA and the MFMA.

Issue will still be included as a qualification in the audit report.

Reconciliations will be followed up during the 2010/2011 audit year.

## 69. Receivable: Journals and indigent application forms not submitted to audit (EX.84)

### Audit finding

#### Requirement/Limitation:

Section 62 (1) (a) and (b) of MFMA prescribes that the accounting officer for a municipality is responsible for managing the financial administration of the municipality and must for this purpose take all reasonable steps to ensure:

- (a) that the resources of the municipality are used effectively, efficiently and economically,
- (b) that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norm and standards.

#### Nature:

Request of information no. 34 of 2010 was issued on 21 October 2010 to the Internal Audit Manager (Mrs S Lebeko). The information could however not be obtained for audit purposes. This matter was again followed up with the Chief Credit Controller (Ms Betty Manyama) on 4 November 2010 who indicated that she is struggling to get the application forms in other units of the municipality. This resulted in a limitation of scope on the audit. Details thereof are:

NR	ACCOUNT NO.	NAME	SUBSIDY GRANTED R	BEGIN DATE	TOWN
1	90002995	MJ Mokate	129,90	18/08/2009	Senekal/Matwabeng
2	10018897	Moiloa	88,22	31/08/2009	Fickburg/Meqheleng
3	300047176	MH.Lebuso	147,03	27/08/2009	Clocolan/Hlohlolwane
4	40497	KM.Mosina	156,3	08/04/2010	Maquard/Moemaneng
Total error in sample			521,45		
Total account total as per note 2			21 228 154,00		
Error as % of total			13%		
Projected error for which uncertainty exist that these consumers met the requirements to take part in the indigent scheme			2 754 930,49		

The following journals were also requested but could not be submitted for audit purposes:

VOTE_DESCR	JOURNAL NR	AMOUNT R
5018801006	90825	-0.05
5018801006	91229	2 664.05
5010001004	15015	700.00
5010001004	15015	-700.00
5010001004	15038	1 100.00
4080001004	14527	5 873.90
Total error in sample		9,637.90
Total account total as per note 2		234,762,662
Error as % of total		0.009%
Projected error for which supporting journals could not be submitted.		20,229.10

**Cause:**

Management does not properly safe-keep important documents.

**Impact:**

Limitation of scope on the audit as audit procedures will not be able to be performed on the said documents.

**Internal control deficiency**

Financial and performance management - Proper record keeping and record management; the documents supporting the above are properly filed and easily retrievable: Requested information was not available and supplied without any significant delay.

**Recommendation**

The information requested should be submitted as soon as possible. Reasons why it could not be obtained should also be forwarded for audit purposes.

**Management response**

**Auditor's conclusion**

## Related parties

### 70. Compliance: Declaration of interests by councillors not done (EX.98)

#### Audit finding

#### Requirement/Limitation:

Section 5 of Schedule 1 - Code of conduct of councillors in the MSA (Act 32 of 2000) states that a councillor must disclose to the municipal council, or to any committee of which that councillor is a member, any direct or indirect personal or private business interest that that councillor, or any spouse, partner or business associate of that councillor may have in any matter before the council or the committee.

#### Nature:

Contrary to the requirements of Section 5 of Schedule 1 - Code of conduct of councillors only the disclosures of interest of the following two councillors could be obtained in the disclosure of interest register for councillors applicable to the 2009/10 financial year:

Cllr TG Makhalanyane (28/08/2009) and Cllr TD Zim (23/10/2009).

Furthermore, the minutes of council and EXCO meetings held on the following dates were inspected to verify whether the above disclosures and any other disclosures have been recorded on the minutes of the meetings:

Council Meeting - 27 August 2009, 08 October 2009,  
EXCO - 29 September 2009, 27 October 2009

Through an inspection of the above minutes of the meetings, no evidence could be obtained that the disclosures of interests of councillors was recorded on minutes either in council or in any of the committees to which councillors are members of.

#### Cause:

The afore-mentioned is caused by a failure by management to ensure that all disclosures of interests by councillors are done.

#### Impact:

A possibility exists that the municipality might have had business dealings with suppliers/contractors which councillors either own or are shareholders and/or members thereof thereby gaining financially from these possible business dealings.

#### Internal control deficiency

*Tone at the top* - Integrity and ethical values are not developed and understood and do not set the standard for sound corporate governance.

*Oversight responsibility* - The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

#### Recommendation

Management must ensure that the disclosures of interest as required by Section 5 of Schedule 1 - Code of conduct of councillors in the Municipal Systems Act are appropriately done to ensure compliance with the afore-mentioned legislative requirement.

#### Management response

In respect of the Exception 98 raised I wish to report as follows:

Disclosures and Declarations are handled separately in terms of the relevant legislation.  
Section 5 of Schedule 1 - Code of conduct for Councillors as per the Municipal System Act stipulate:

1. *(1) A councillor must: (a) Disclose to the municipal council, or to any committee of which that councillor is a member, any direct or indirect personal or private business interest that the councillor, or any spouse, partner or business associate of that councillors may have in any matter before the council or the committee; and*
2. *(b) Withdraw from the proceedings of the council or committee when that matter is considered by the council or committee, unless the council or committee decides that the councillor's director or indirect interest in the matter is trivial or irrelevant.*

Based on the above the Council complies, in that every Council Meeting, Exco Meeting and Standing Committee Meeting Agendas are prepared with a standing item on, namely Disclosure of Interest whereby the Councillors must declare interest on a specific item on the agenda and they are then excused from the meeting when the matter is discussed. (See Annexure A with an extract from minutes whereby it shows the standing item on the Agenda)

Secondly Section 7 of Schedule 1 – Code of conduct for Councillors as per the Municipal Systems Act, relates specifically to Declaration of Financial Interest and stipulates that 60 days after a Councillor has been appointed they have to declare certain financial interests as contained in the Code and any change in the nature or detail must be declared in writing to the Municipal Manager annually.

At Setsoto, forms are sent out requesting declarations to be updated, however only changes are updated as per the code of conduct.

We have however for this financial year sent out forms to all Councillors again requesting the to complete and resubmit even if a zero declaration is made, which will be captured in the register accordingly.

It is evident that there is a need for development of a framework on how to deal with Disclosures of Interest and Declarations of Interest which outlines procedures. The matter will be discussed in consultation with the Office of the Speaker, in order to come up with a document in this regard.

#### **Auditor's conclusion**

The comments received from management are noted. However the response does not address the matter that the councillors have not declared in writing any direct or indirect personal or private business interest that that councillor, or any spouse, partner or business associate of that councillor may have in any matter before the council or the committee.

The fact that such issues are identified during a meeting does not adequately ensure that all related parties are identified and dealt with accordingly.

Therefore, it is the opinion of the auditors that the finding must still stand.

**AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE  
AND THE COUNCIL ON THE SETSOTO LOCAL MUNICIPALITY**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying financial statements of the Setsoto Local Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages ... to ....

**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 (GRAP) and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor-General's responsibility**

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and General Notice 1570 of 2009 issued in Government Gazette 32758 of 27 November 2009. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Basis for qualified opinion**

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

7. The asset register, deemed the only suitable record of the municipality's assets, was not considered to be a reliable record of property, plant and equipment, as no alternative procedures could be performed in instances where the asset register could not provide appropriate audit evidence, as assets with a carrying value of R323 938 733 disclosed in note 8 to the financial statements and the statement of financial position could not be physically verified due to deficiencies in the asset register. These included no descriptions and locations; duplicate registration numbers; and redundant, obsolete or damaged assets that could not be traced.

I could therefore not obtain sufficient appropriate audit evidence to confirm the existence, completeness, presentation and disclosure of, and the municipality's rights to, property, plant and equipment of R323 938 733.

8. Sufficient appropriate audit evidence for capital expenditure of R10 333 150 in the previous year could still not be presented for audit purposes, which would have enabled me to perform the procedures I deemed necessary, resulting in a limitation on the audit. As a result, I was unable to confirm the valuation, rights and obligations and completeness of property, plant and equipment in this regard.
9. In terms of paragraph 22 of SA Standard of GRAP, GRAP 17, *Property, plant and equipment*, where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition. Additions to property, plant and equipment, financed by the Thabo Mofutsanyana District Municipality, were not recorded in the books of the municipality at appropriate amounts and resulted in an understatement of R2 501 939 of infrastructure assets as disclosed in note 8 to the financial statements as well as property, plant and equipment at 30 June 2010, as disclosed in the statement of financial position and note 8 to the financial statements.
10. Value added tax (VAT) can only be claimed if supported by a valid tax invoice, as required by section 20(4) of the Value Added Tax Act of South Africa, 1991 (Act No. 89 of 1991 (VAT Act)). During the year, VAT was claimed on invalid invoices which resulted in an understatement of property, plant and equipment of R2 463 466 and an overstatement of VAT receivables.

### **Finance lease liability**

11. In terms of paragraph 34 of SA Standard of GRAP, GRAP 13, *Leases*, the municipality should have recognised the finance lease liabilities in their statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. Contrary to this, finance leases disclosed in note 16 to the financial statements was overstated by R2 499 868, due to lease equipment acquired at amounts significantly higher than the fair value on which the future minimum payments are based.
12. Contrary to the requirements of paragraphs 5 and 12 of SA Standard of GRAP, GRAP 13: *Leases*, lease payments were erroneously excluded from the finance lease assets thereby understating the finance leases and property, plant and equipment by R2 287 980.

**Inventory**

13. In the absence of sufficient appropriate audit evidence (including inventory policies and procedures as well as stocktaking reports) to support the inventory disclosure in note 4 of R1 281 881 (2009: R573 880), the rights, valuation, existence and completeness of inventory at year-end could not be verified. Various shortcomings with the administration of inventory were also identified. I could not perform any reasonable alternative procedures to confirm the rights, valuation and existence of inventory at year-end.

**Unspent conditional grants**

14. Unspent conditional grants of R32 205 544 (2009: R16 441 776) disclosed in notes 14 and 37.3 to the financial statements were not supported by sufficient appropriate audit evidence and is not backed by investments thus it would seem that conditional grants were used for purposes other than what it was intended for. Owing to shortcomings with the recordkeeping of the municipality, I could therefore not perform alternative procedures to verify the completeness, validity and existence of this liability.

**Irregular, fruitless and wasteful expenditure**

15. The completeness of irregular expenditure of R27 108 966 disclosed in note 37.3 to the financial statements could not be determined owing to a lack of sufficient, appropriate audit evidence. The application of alternative procedures did not have the desired results owing to weaknesses with recordkeeping of the municipality.

**Trade debtors and other receivables**

16. Included in total trade and other consumer debtors of R234 762 662 that is disclosed in note 2 to the financial statements were indigent consumer balances of R2 754 930. Sufficient, appropriate audit evidence could not be submitted as to the existence and valuation of these debtor balances.

**Capital commitments**

17. Appropriate, sufficient audit evidence to substantiate capital commitments of R58 348 509 included with the amount disclosed in note 39, could not be submitted for audit. The application of alternative procedures could not be performed owing to shortcomings in the recordkeeping at the municipality and therefore the obligations, completeness and valuation thereof could not be verified.

**General expenses**

18. Appropriate, sufficient audit evidence to substantiate payments for goods and services of R9 094 572 included with the amount disclosed in note 31, could not be submitted for audit. The application of alternative procedures could not be performed owing to shortcomings with recordkeeping at the municipality. As a result, the occurrence and completeness of this expenditure were not confirmed.
19. VAT transactions relating to payments for goods and services were understated by R2 124 476 in respect of the incorrect allocation of VAT to the general expenses account. General expenditure was therefore overstated with the same amount.

**Cash and cash equivalents**

20. Appropriate, sufficient audit evidence to substantiate payments of R16 938 181 could not be submitted for audit. The application of alternative procedures could not be performed owing to shortcomings with recordkeeping at the municipality. As a result, the valuation and completeness of this account balance could not be confirmed.

#### **Related party disclosures**

21. I was unable to obtain the information and records needed to confirm whether related party transactions with officials and councillors occurred, due to limitations placed on the scope of my work by the entity. The municipality's records did not permit the application of alternative audit procedures regarding related party disclosures. Consequently, I did not obtain all the information and explanations I considered necessary to satisfy myself as to that no related party transactions occurred.

#### **Qualified opinion**

22. In my opinion, except for the possible effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Setsoto Local Municipality as at 30 June 2010, its financial performance and its cash flows for the year then ended, in accordance with the SA Standards of GRAP and in the manner required by the MFMA.

#### **Emphasis of matters**

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

#### **Going concern**

23. As disclosed in note 46 to the financial statements there are material uncertainties that may cast significant doubt on the entity's ability to operate as a going concern.

#### **Additional matters**

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

#### **Unaudited supplementary schedules**

25. The supplementary information set out on pages 35 to 41 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. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the Division of Revenue Act, 2009 (Act No. 12 of 2009) (DoRA), MFMA, and financial management (internal control).

#### **Predetermined objectives**

27. Material findings on the report on predetermined objectives are reported below:
- Non-compliance with regulatory and reporting requirements

**No reporting against predetermined objectives, indicators and targets**

28. The municipality did not prepare an annual performance report in terms of section 46 of the MSA and section 121(3)(c) of the MFMA.

**The performance audit committee was not functioning properly**

29. The performance audit committee of the municipality did not discharge its responsibilities as determined in terms of paragraph 14(3)(a) and 14(4)(a) of the Local Government: Municipal Planning and Performance Management Regulations, 2001.

**Compliance with laws and regulations**

**The annual budget was not prepared, tabled and approved in accordance with the applicable laws and regulations**

30. The mid-year assessment budget was not prepared in the format prescribed by section 21 of the MFMA.
31. Contrary to section 28(3) and 28(4) of the MFMA, the mayor did not table an adjustment budget in the municipal council.
32. Contrary to section 24(1) of the MFMA, the municipal council did not approve the 2009-10 budget at least 30 days before the start of the budget year.

**The mayor did not adhere to his legislative reporting responsibilities**

33. In terms of sections 127(2) and 127(3) of the MFMA, the mayor of a municipality must, within seven months after the end of a financial year, table in the municipal council the annual report of the municipality. The mayor did not comply with this requirement of the MFMA.

**The accounting officer did not adhere to his statutory responsibilities**

34. Contrary to section 74(1) of the MFMA, the accounting officer did not submit monthly reports of contracts awarded above the value of R100 000 (VAT included) with a total of value of R45 199 555 to the National Treasury and the provincial treasury, the Department for Local Government or the Auditor-General.
35. Contrary to section 71 of the MFMA, the accounting officer did not report on the municipality's financial affairs to the mayor and the provincial treasury.
36. Contrary to the requirements of section 72(1)(a) and (b) of the MFMA, the municipal manager did not by 25 January assess the performance of the municipality for the first half of the financial year and did not submit a report on such an assessment to the mayor of the municipality, the National Treasury and the relevant provincial treasury, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan, as required by section 72 of the MFMA.

**Municipal officials did not adhere to their statutory responsibilities**

37. Contrary to section 70(2) and (3) of the MFMA, evidence could not be obtained that the municipality notified the National Treasury of the overdrawn bank account position. The bank balance was overdrawn for a major part of the financial year.
38. Senior managers of the municipality exercising financial management responsibilities did not ensure that assets were properly maintained in terms of section 78(1)(e) of the MFMA.

**The audit committee was not properly established or not functioning properly**

39. Contrary to section 166(2) of the MFMA, the audit committee did not discharge its mandate effectively.

**Supply Chain Management legislative requirements were not implemented or not adhered to (not resulting in irregular expenditure)**

40. Goods and services were supplied by the provider and payment made to the provider without a written signed contract which is contrary to paragraph 20(g)(i) of the municipal SCM policy.
41. Contrary to section 116(2) of the MFMA, which requires an accounting officer to enforce the conditions of contracts, contracts awarded in previous years totalling R39 539 289 were not monitored and the conditions enforced.

**Expenditure was incurred otherwise than in accordance with sections 15 and 11(3) of the MFMA resulting in unauthorised expenditure**

42. As disclosed in note 37 to the financial statements, expenditure was not incurred in accordance with the approved budget of the municipality and exceeded the limits of the amounts appropriated for the different votes in the approved budget of the municipality.

**Expenditure was incurred in contravention of or not in accordance with applicable legislation resulting in irregular expenditure**

43. Expenditure was incurred which was not in accordance with the municipality's supply chain management policy and resulted in irregular expenditure as defined in section 1 of the MFMA.
44. Expenditure was incurred which was not in accordance with the requirements of the Public Officer Bearers Act of South Africa, 1998 (Act No. 20 of 1998) resulting in irregular expenditure as defined in section 1 of the MFMA.

**Expenditure incurred was made in vain or could have been avoided resulting in fruitless and wasteful expenditure**

45. Expenditure was incurred which could have been avoided had reasonable care been exercised resulting in fruitless and wasteful expenditure as defined in section 1 of the MFMA.

## **Division of Revenue Act**

### **The accounting officer did not adhere to his statutory responsibilities**

46. Contrary to the requirements of section 42(1)(a) of DoRA, the accounting officer did not submit the budget to the National Treasury by 14 April 2009.
47. The municipality did not adhere to the conditions attached to conditional grants by not regularly reporting on the conditional grants in terms of section 74(1) of the MFMA.

## **INTERNAL CONTROL**

48. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA, but not for the purpose of expressing an opinion on the effectiveness of internal control.
49. The matters reported below are limited to the significant deficiencies regarding the qualified opinion paragraphs, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

### **Leadership**

50. Management's philosophy and operating style do not promote effective control over reporting and they do not lead by example.
51. Accountability is not emphasised and quality is not understood by all to be a prerequisite and is not embedded in the entity's values. Performance is not measured.

### **Financial and performance management**

52. Management and staff do not fulfil their duties and responsibilities while pertinent information is not identified and captured in a form and time frame to support financial and performance reporting. Requested information was not available and supplied without any significant delay. Systems are not appropriate to facilitate the preparation of the financial statements and performance reports.

### **Governance**

53. The municipality does not identify risks relating to the achievement of financial and performance reporting objectives. Internal audit reports are not taken serious and lead to repeat findings that are not resolved. The audit committee did not fulfil its responsibilities as set out in legislation and in accordance with accepted best practice.

## **OTHER REPORTS**

### **Investigations in progress**

54. The executive committee of the council ordered an internal investigation into the spending of monies on a certain project where money was paid for unequal work performed by a

certain service provider. At time of this report, this status of this investigation was not known.

### **Engagement to perform agreed upon procedures engagement**

55. As requested by the municipality, an engagement was conducted during the year under review concerning the administration and monitoring of certain contracts and tenders relating to the establishment of solid waste disposal sites. This engagement is not finalis at the time of this report.

*Auditor-General*  
Bloemfontein

30 November 2010



**AUDITOR - GENERAL  
SOUTH AFRICA**

*Auditing to build public confidence*