

**REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE PROVINCIAL LEGISLATURE AND COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF NKETOANA LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I was engaged to audit the accompanying financial statements of the Nketoana Local Municipality which comprise the statement of financial position as at 30 June 2009, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages [xx] to [xx].

**The 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 Statements of Generally Recognised Accounting Practice (Statements of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**The Auditor-General's responsibility**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit assurance to provide a basis for an audit opinion.
4. Paragraph 11 *et seq.* of the Standards of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Nketoana Local Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

**Basis for disclaimer of opinion**

**Cash and cash equivalents**

5. As a result of the matters detailed below, I was unable to obtain sufficient appropriate audit assurance as to the existence, rights and obligations, valuation and completeness of cash and cash equivalents of R40 202 547 (R28 182 768: 2008) disclosed in note 1 to the financial statements:
  - Sufficient supporting documentation could not be obtained for bank suspense accounts amounting to R12 433 426, and deposits amounting to R45 581 were captured on the accounting system of the municipality. Due to the lack of a proper system to account for these suspense accounts, and the deposits and supporting documentation not being provided I was unable to perform alternative procedures.

- Unreconciled differences amounting to R32 309 498 were identified between the general ledger and the bank confirmations received. I could not be provided with sufficient supporting documentation to reconcile these differences. The entity's financial system did not permit the performance of alternative procedures.

#### Trade and other receivables

6. Sufficient appropriate audit assurance as to the completeness, existence, valuation and the municipality's rights to trade and other receivables of R20 833 076 (R18 166 713: 2008) as disclosed in note 2 to the financial statements could not be obtained due to the following:
  - Paragraph 58 of the South African Statement on Generally Accepted Accounting Practice, IAS 39: *Financial Instruments: Recognition and Measurement* (IAS 39) requires the municipality to assess at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. The municipality, however, made a general provision for doubtful bad debts regarding trade and other receivables amounting to R100 398 216 (R76 946 292: 2008) as disclosed in note 2 to the financial statements. This is not in accordance with the impairment requirements of IAS 39. As the relevant information was not available I was not able to calculate what the impairment charge against trade and other receivables and bad debts expense should have been had IAS 39 been applied correctly.
  - Paragraph 46(a) of the Statements of Generally Accepted Accounting Practice (GAAP) IAS 39 (AC 133) *Financial Instruments: Recognition and Measurement* states: After initial recognition, an entity shall measure financial assets, including derivatives that are assets, at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except, amongst others, for loans and receivables as defined in paragraph 9, which shall be measured at amortised cost using the effective interest method. Contrary to the requirements, trade and other receivables as disclosed in note 2 to the financial statements, were not measured at amortised cost. The municipality's records and information available did not permit the performance of alternative audit procedures regarding receivables. Consequently, I could not determine the amounts by which trade and other receivables and interest were misstated.
  - IFRS 7 *Financial instrument: Disclosures* in conjunction with ISA 32 and ISA 39, requires that debtors in the notes to the annual financial statements should be disclosed by category of consumer, specifically identifying those amounts owed by other spheres of government and there should be an age analysis by major revenue in the notes to the annual financial statements. Contrary to the requirements, trade and other receivables as disclosed in note 2 to the financial statements did not disclose the age analysis by major revenue source and receivables by customer classification. The municipality's records and information available did not permit the performance of alternative audit procedures regarding receivables.
  - I could not be obtained sufficient supporting documentation for receivables amounting to R39 284 663 that were disclosed in note 2 to the financial statements. The entity's records did not permit the application of alternative procedures regarding receivables.
  - Value-added tax (VAT) amounting to R8 273 712 (R7 412 844: 2008) as disclosed in note 2 to the financial statements, has been incorrectly classified. Trade and other receivables as disclosed in note 2 to the financial statements were reduced with this VAT instead of disclosing the amount as an accrual under trade and other payables in note 7 to the financial statements. Consequently, trade and other payables, and trade and other receivables are both understated by R8 273 712 (R7 412 844: 2008).

### **Inventories**

7. Sufficient appropriate audit assurance as to the completeness, existence, valuation and the municipality's rights to inventories disclosed as R2 106 868 in note 3 to the financial statements could not be obtained due to the lack of a proper system to account for inventory and inadequate procedures during the year-end stock count. The entity's records did not permit the application of alternative procedures regarding inventory.

### **Investments**

8. Sufficient supporting documentation and information to reconcile differences amounting to R6 108 544 that were identified between the general ledger and the bank confirmations received could not be obtained. Consequently, I was unable to obtain sufficient appropriate audit assurance as to the existence, rights and obligations, valuation and completeness of short-term investments of R21 725 049 disclosed in note 4 and long-term investments of R10 655 998 disclosed in note 5 to the financial statements. The entity's records did not permit the application of alternative procedures regarding investments.

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

9. As a result of incomplete details in the asset register for identification purposes, an inadequate asset register, inadequate system to account for property, plant and equipment, and the municipality not conducting an asset verification for the year under review, I was unable to obtain sufficient appropriate audit assurance as to the completeness, existence and the municipality's rights to property, plant and equipment disclosed as R351 381 565 (R316 544 893: 2008) in note 6 to the financial statements. The entity's records did not permit the application of alternative procedures regarding property, plant and equipment.

### **Payables**

10. Sufficient appropriate audit assurance as to the existence, rights and obligations, valuation and completeness of payables amounting to R19 523 448 (R4 479 381: 2008) as disclosed in note 7 to the financial statements could not be obtained due to the following:
  - Sufficient supporting documentation could not be obtained for payables amounting to R2 276 249 and a journal entry amounting to R10 388 249 that was included in the payables balance under note 7. Due to the lack of supporting documents I was unable to perform alternative audit procedures to obtain sufficient appropriate audit assurance as to the completeness, valuation, rights and obligations, and existence of payables.
  - Audit procedures performed revealed undisclosed payables of at least R1 113 606. Consequently, I was unable to determine the completeness of payables. Due to the lack of a proper system to account for payables and the balances of the accrual listing not agreeing with the supplier's statements, no alternative procedures could be performed to quantify the misstatement in this respect.
  - Trade and other receivables with credit balances amounting to R988 556 have not been reclassified as trade and other payables in the financial statements. Consequently, trade and other payables and trade and other receivables are both understated by R988 556.

## Value-added tax

11. The municipality's accounting system was inadequate to account for VAT. During the audit several cases were identified where input VAT was not claimed on claimable expenditure and where input VAT was erroneously claimed. Consequently, I was unable to obtain sufficient appropriate audit assurance as to the completeness, valuation, existence, and rights and obligations of the VAT payable disclosed as R12 129 478 in note 9 to the financial statements. Owing to the extent of shortcomings in respect of VAT no alternative procedures could be performed to obtain the required audit assurance.

## Provisions

12. Accruals for leave and bonuses amounting to R3 388 989 (R1 976 011: 2008), as disclosed in note 10 to the financial statements, have been incorrectly accounted for in terms of paragraph 10 of the South African Statement of Generally Accepted Accounting Practice, IAS 19 (AC116): *Employee Benefits*. The accruals have been inaccurately classified as current provisions in note 10, instead of as accruals under trade and other payables in note 7 to the financial statements. Consequently, trade and other payables are understated and current provisions are overstated by R3 388 989 (R1 976 011: 2008).

## Net assets

13. As a result of the matters detailed below, I was unable to obtain sufficient appropriate audit assurance as to the existence, rights and obligations, valuation and completeness of net assets amounting to R369 507 415 (R332 053 083: 2008), disclosed in the statement of changes in net assets:

- I could not obtain sufficient supporting documentation for transactions processed in the government grant reserve as well as the accumulated surplus amounting to R26 922 402. Due to the lack of supporting documents I was unable to perform alternative audit procedures to obtain sufficient appropriate audit assurance.
- Revenue and expenditure items amounting to R2 756 724 were directly posted to the accumulated surplus account. Due to a lack of supporting documents it was not possible to confirm the correctness of these entries against the accumulated surplus. Furthermore, the adjustments amounting to R5 982 374 relating to prior period errors were not adjusted retrospectively in accordance with paragraph 43 of the Standards of Generally Recognised Accounting Practice, GRAP3 *Accounting Policies, Changes in Accounting Estimates and Errors*. Information on the nature of the prior year's errors and line items affected was also not disclosed as required in terms of paragraph 49 of GRAP 3.
- Sufficient supporting documentation for journals amounting to R14 574 698 could not be obtained. Due to the lack of supporting documents I was unable to confirm the transfers to and from the capital reserves during the process of unbundling.

The entity's records did not permit the application of alternative procedures regarding net assets.

## Revenue

14. As a result of the matters detailed below, I was unable to obtain sufficient appropriate audit assurance as to the completeness, accuracy, occurrence and classification of revenue disclosed as R150 476 478 (R184 592 256: 2008) in the statement of financial performance:

- Differences were identified for the interest rate charged as per the system and the rates that should have been charged. As the relevant information was not available I was not able to calculate what the interest charged against trade and other receivables and interest earned revenue should have been had the rates been applied correctly.
- Differences were identified for meter readings and tariffs used to levy charges during the year. As the relevant information was not available I was not able to calculate what the charge against trade and other receivables and service charges revenue should have been had the tariffs been applied correctly.
- Differences were identified for the electricity tariffs charged and the approved tariffs as per the National Energy Regulator of South Africa. As the relevant information was not available I was not able to calculate what the electricity tariffs charged against trade and other receivables and service charges revenue should have been had the tariffs been applied correctly.
- Sufficient supporting documentation could not be obtained for a journal amounting to R6 611 934 that was posted to the other income general ledger account and journals amounting to R37 495 123 and R37 536 516, respectively debited and credited against revenue.
- Contrary to the requirements of paragraph 30 of the Standard of Generally Recognised Accounting Practice GRAP 1, *Presentation of the financial statements* the municipality did not provide for service charges relating to the period between the last meter reading date and the year-end date on an annual basis. Based on my calculations service charges and trade and other receivables are both understated by approximately R1 463 008.

The entity's records did not permit the application of alternative procedures regarding revenue.

### **Expenditure**

15. As a result of the matters detailed below, I was unable to obtain sufficient appropriate audit assurance as to the completeness, accuracy, occurrence and classification of expenditure disclosed as R121 109 363 in the statement of financial performance:

- The management of the filing system did not function effectively, resulting in documents supporting payments amounting to R6 855 805 not being provided for audit purposes.
- Payments totalling R289 538 could not be traced to the general ledger.

Owing to the lack of supporting documentation no alternative procedures could be performed to obtain the required audit assurance.

### **Irregular expenditure**

16. The municipality has to omitted disclose irregular expenditure of at least R6 215 356 (R786 576: 2008), which was incurred as a result of non-compliance with the supply chain management policy in respect of bids and quotations that were not obtained and processes in the awarding of bids that were not complied with. Due to a lack of a proper system to account for and identify irregular expenditure I could not perform alternative procedures to obtain sufficient appropriate audit assurance as to the completeness of irregular expenditure disclosed as R409 269 in note 30.3 to the financial statements.

### **Unauthorised expenditure**

17. The municipality overspent its budget for the current year by R13 254 568, due to inadequate budget control measures. This expenditure is regarded as unauthorised expenditure in terms of section 1 of the MFMA. The disclosure requirements of section 125(2)(d) of the MFMA relating to unauthorised expenditure was not complied with.

### **Contingent liabilities**

18. In my previous audit report dated 30 November 2008 I was unable to express an unqualified audit opinion on contingent liabilities for the year ended 30 June 2008. The matter has not been adequately resolved thus the extent and financial effect of contingent liabilities for the prior year as disclosed in note 34 to the financial statements could still not be confirmed. I was unable to perform alternative audit procedures due to the lack of information and supporting evidence.

### **Disclaimer of opinion**

19. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit assurance to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

### **Emphasis of matters**

I draw attention to the following matters on which I do not express an adverse opinion:

#### **Irregular, and fruitless and wasteful expenditure**

20. As disclosed in note 30.3 to the financial statements, irregular expenditure to the amount of R409 269 was incurred due to proper processes, as set out in the supply chain management policy, regarding the payment of expenditure not being followed by the municipality.

21. As disclosed in note 30.2 to the financial statements, fruitless and wasteful expenditure to the amount of R300 900 was incurred due to a fraudulent payment.

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

22. As disclosed in notes 28 and 29 to the financial statements, the corresponding figures for the financial year ended 30 June 2009 have been restated as the municipality has implemented the Standards of Generally Recognised Accounting Practice.

### **Other matters**

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

#### **Unaudited supplementary schedules**

23. The supplementary information set out on pages xx to xx 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.

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

#### **Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003)**

24. Payments amounting to at least R903 818 were not made within 30 days of date of receipt of the relevant invoice or statement, as prescribed by section 65(2)(e) of the MFMA.

25. In terms of section 122(3) of the MFMA the annual financial statements must be prepared in accordance with generally recognised accounting practice as determined by the Accounting Standards Board. The municipality had not provided supplementary information in the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, as prescribed by GRAP 1 *Presentation of Financial Statements*.
26. The draft service delivery and budget implementation plan for the budget year was not submitted to the mayor within 14 days after the approval of the annual budget as required by section 69(3) of the MFMA.
27. The mayor did not table in the municipal council the annual report for the 2007-08 financial year within seven months after the end of the financial year as required by section 127(2) of the MFMA.

**Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA)**

28. According to section 57 of the MSA municipal managers and managers directly accountable to the municipal manager may be appointed to that position only in terms of a written employment contract and subject to a separate performance agreement. The municipality had no performance contracts in place as required in terms of section 57 of the MSA. Consequently, no performance reviews were performed for the 2008-09 financial year.
29. In terms of paragraphs 5 and 7 of the Code of Conduct for Councillors in schedule 1 of the MSA, councillors should declare their financial interests upon appointment. Additionally, according to paragraph 5A of the Code of Conduct for Municipal Staff Members in schedule 2 of the MSA, a person appointed in terms of section 56 of the MSA or a municipal manager should declare their financial interest. The register of declarations of interest had not been updated for the 2008-09 financial year.
30. The municipality did not have a debt collection policy in place as required by section 96 of the MSA.

**Governance framework**

31. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below:

**Internal control deficiencies**

32. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the deficiencies in the system of internal control, which led to the disclaimer of opinion. The root causes are categorised according to the five components of an effective system of internal control. In some instances deficiencies exist in more than one internal control component.

| Par. no. | Basis for disclaimer of opinion | CE   | RA | CA   | IC | M |
|----------|---------------------------------|------|----|------|----|---|
| 5        | Cash and cash equivalents       | 5    |    | 5    |    |   |
| 6        | Trade and other receivables     | 7, 5 |    | 5    |    |   |
| 7        | Inventories                     | 5, 7 |    | 5    |    |   |
| 8        | Investments                     | 5, 7 |    |      | 1  |   |
| 9        | Property, plant and equipment   | 1    |    | 3    |    |   |
| 10       | Payables                        | 5, 7 |    | 1, 3 |    |   |
| 11       | Value-added tax (VAT)           | 2, 7 |    |      |    | 2 |

| Par. no. | Basis for disclaimer of opinion | CE   | RA | CA   | IC | M |
|----------|---------------------------------|------|----|------|----|---|
| 12       | Provisions                      | 5    |    |      |    |   |
| 13       | Net assets                      | 5, 7 |    | 3    |    |   |
| 14       | Revenue                         | 5    |    | 1, 3 | 1  |   |
| 15       | Expenditure                     | 5    |    | 3    | 1  |   |
| 16       | Irregular expenditure           | 5    |    |      |    |   |
| 17       | Unauthorised expenditure        | 5    |    |      |    |   |
| 18       | Contingent liabilities          | 5, 7 |    | 5    |    |   |

#### Overall reflections on the governance framework based on internal control deficiencies

33. The accounting officer did not exercise oversight responsibility over financial reporting and internal control and he was not adequately involved during the audit. Furthermore the accounting officer did not implement adequate financial policies and procedures to address all transactions processed.
34. Staff did not have a clear understanding of the Standards of Generally Recognised Accounting Practice and the municipality did not have adequate individuals competent in financial reporting and related matters. The chief financial officer and audit committee also did not adequately review the financial statements before submission to the Auditor-General. Inadequate senior management monitoring during the financial system conversion process resulted in the financial systems and underlying financial data not being appropriate for the preparation of the financial statements which also included the conversion to GRAP.
35. Monitoring by senior management was ineffective and did not ensure that all non-compliance with applicable legislation that resulted in irregular and unauthorised expenditure were identified and reported. Monitoring by senior management did not take place regularly or timeously to prevent and detect errors and non-compliance with internal policies and procedures.
36. Senior management did not take adequate and appropriate action to address audit findings that have been reported in the prior year.
37. Inadequate filing procedures resulted in significant limitations of scope during the current financial year's audit.

| Legend  |   |
|---|---|
| <b>CE = Control environment</b>   |   |
| The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting. | 1 |
| Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting.            | 2 |
| Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel.                            | 3 |
| Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting.                            | 4 |
| The accounting officer/accounting authority does not exercise oversight responsibility over financial reporting and internal control.               | 5 |
| Management's philosophy and operating style do not promote effective control over financial reporting.  | 6 |
| The entity does not have individuals competent in financial reporting and related matters.  | 7 |
| <b>RA = Risk assessment</b>   |   |
| Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting.                  | 1 |
| The entity does not identify risks to the achievement of financial reporting objectives.  | 2 |
| The entity does not analyse the likelihood and impact of the risks identified.  | 3 |
| The entity does not determine a risk strategy/action plan to manage identified risks.   | 4 |
| The potential for material misstatement due to fraud is not considered.   | 5 |
| <b>CA = Control activities</b>  |   |
| There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation.  | 1 |
| General information technology controls have not been designed to maintain the integrity of the information system and the security of the data.    | 2 |



|   |   |
|---|---|
| Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed. | 3 |
| Actions are not taken to address risks to the achievement of financial reporting objectives.  | 4 |
| Control activities are not selected and developed to mitigate risks over financial reporting.   | 5 |
| Policies and procedures related to financial reporting are not established and communicated.  | 6 |
| Realistic targets are not set for financial performance measures, which are in turn not linked to an effective reward system.                             | 7 |
| <b>IC – Information and communication</b>   |   |
| Pertinent information is not identified and captured in a form and time frame to support financial reporting.   | 1 |
| Information required to implement internal control is not available to personnel to enable internal control responsibilities.                             | 2 |
| Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel.                 | 3 |
| <b>M – Monitoring</b>   |   |
| Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.          | 1 |
| Neither reviews by internal audit or the audit committee nor self-assessments are evident.  | 2 |
| Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.                          | 3 |

### Key governance responsibilities

38. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

| No.   | Matter  | Y | N |
|---|---|---|---|
| <b>Clear trail of supporting documentation that is easily available and provided in a timely manner</b>     |   |   |   |
| 1.  | No significant difficulties were experienced during the audit concerning delays or the availability of requested information.                             |   | X |
| <b>Quality of financial statements and related management information</b>                                   |   |   |   |
| 2.  | The financial statements were not subject to any material amendments resulting from the audit.  |   | X |
| 3.  | The annual report was submitted for consideration prior to the tabling of the auditor's report.   |   | X |
| <b>Timeliness of financial statements and management information</b>  |   |   |   |
| 4.  | The annual financial statements were submitted for auditing as per the legislated deadlines in section 126 of the MFMA.                                   | X |   |
| <b>Availability of key officials during audit</b>   |   |   |   |
| 5.  | Key officials were available throughout the audit process.  |   | X |
| <b>Development and compliance with risk management, effective internal control and governance practices</b> |   |   |   |
| 6.  | Audit committee   |   |   |
|   | • The municipality had an audit committee in operation throughout the financial year.   |   | X |
|   | • The audit committee operates in accordance with approved, written terms of reference.   |   | X |
|   | • The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.                                |   | X |
| 7.  | Internal audit)   |   |   |
|   | • The municipality had an internal audit function in operation throughout the financial year.   |   | X |
|   | • The internal audit function operates in terms of an approved internal audit plan.   |   | X |
|   | • The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.                        |   | X |
| 8.  | There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.                   |   | X |
| 9.  | There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations. |   | X |

| No.  | Matter  | Y | N |
|--|---|---|---|
| 10.  | The information systems were appropriate to facilitate the preparation of the financial statements.   |   | X |
| 11.  | A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(1)(c)(i) of the MFMA.  |   | X |
| 12.  | Powers and duties have been assigned, as set out in section 79 of the MFMA.   | X |   |
| <b>Follow-up of audit findings</b>                                 |   |   |   |
| 13.  | The prior year audit findings have been substantially addressed.  |   | X |
| 14.  | Oversight resolutions have been substantially implemented.  |   | X |
| <b>Issues relating to the reporting of performance information</b> |   |   |   |
| 15.  | The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.   |   | X |
| 16.  | Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.   |   | X |
| 17.  | A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by Nketoana Local Municipality against its mandate, predetermined objectives, outputs, indicators and targets as per section 68 of the MFMA. | X |   |
| 18.  | There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.   |   | X |

### Overall reflections on the governance framework based on other key governance requirements

39. Owing to the non-functioning of the internal audit function and the audit committee that did not substantially fulfilled its responsibilities for the year a risk assessment that includes a fraud prevention plan as required in terms of the MFMA was not conducted. The accounting officer did not implement any alternative measures to ensure that a risk assessment was done.
40. The accounting officer did not actively monitor the implementation of the SCOPA resolutions and the action plan to correct prior year audit findings, which resulted in matters previously reported regarding the audit committee, internal audit and irregular expenditure not being addressed.
41. The accounting officer did not ensure that policies and procedures related to financial reporting, risk management and compliance with laws and regulations were established and communicated within the municipality. Further more the accounting officer did not substantially address all prior year audit findings, resulting in a recurrence of audit report qualifications and management report findings.
42. The fact that the financial statements were subject to material corrections resulting from the audit is attributed to the accounting officer not developing and implementing adequate control measures to ensure that financial statements and financial reporting information are properly reviewed before submission to the Auditor-General.
43. Significant difficulties were experienced due to the unavailability of requested supporting documentation and the lack of availability of key officials during the audit.

### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

#### Report on performance information

44. I was engaged to review the performance information.

### **Responsibility of the accounting officer for the performance information**

45. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

### **Responsibility of the Auditor-General**

46. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.

47. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate audit assurance about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

48. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

### **Findings on performance information**

#### **Non-compliance with regulatory requirements**

##### **No reporting of performance information**

49. The annual report of the municipality did not include the annual performance report of the municipality, which is required to be prepared in terms of section 46 of the MSA, as required by section 121(3)(c) of the MFMA.

##### **Content of integrated development plan**

50. The integrated development plan of the 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.

##### **Existence and functioning of a performance audit committee**

51. The municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee, as required by regulation 14(2) of the Municipal Planning and Performance Management Regulations, 2001.

##### **Internal auditing of performance measurements**

52. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required in terms of section 45 of the MSA.

##### **Lack of adoption or implementation of a performance management system**

53. The municipality did not adopt a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required in terms of regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

##### **No mid-year budget and performance assessments**

54. The accounting officer of the municipality did not (by 25 January of each year) assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan, as required by section 72 of the MFMA.
55. The non-compliance with regulatory requirements can be attributed to the lack of supervision and oversight by management and internal controls regarding performance management that were not effective, efficient and transparent to ensure that strategic objectives and targets were aligned to the priorities and that actual performance was accurately measured and reported on. Policies and procedures with regard to reporting performance against predetermined objectives were also not established.

#### **APPRECIATION**

56. The assistance rendered by the staff of the Nketoana Local Municipality during the audit is sincerely appreciated.

*Auditor-General*

Bloemfontein

30 November 2009



**A U D I T O R - G E N E R A L  
S O U T H A F R I C A**

*Auditing to build public confidence*