

OVERSIGHT REPORT ON 2012/13 ANNUAL REPORT



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1. PURPOSE OF THE REPORT

The main purpose of this report is to recommend to Council consideration of the municipality's Annual report for the 2012/2013 financial year and to adopt an oversight report containing Council's comments on the Annual report in terms of Section 129 (1) of the Local Government : Municipal Finance Management Act, 2003 (Act no.56 of 2003).

2. BACKGROUND

2.1. Legal Requirements

Section 121 (1), (2) and (3) of the MFMA determines that:-

121 (1) Every Municipality and every municipal entity must for each financial year prepare an annual report in accordance with this Chapter. The Council of a municipality must within nine months after the end of a financial year deal with the annual report of the municipality and of any municipal entity under the municipality's sole or shared control in accordance with section 129

2.2. Municipal Public Accounts Committee

The Municipal Public Accounts Committee is the mechanism through which Council exercises oversight over the management and expenditure of public funds. Council must provide assurance to the public that public monies and assets are being managed properly and that value for money is being rendered by public sector institutions in their spending of public funds. Municipal Public Accounts Committees are established in terms of section 79 of the Municipal Structures Act to conduct oversight functions.

2.3. Purpose of the Annual Report

The purpose of the Annual Report is:-

- a) To provide a record of the activities of the municipality or municipal entity during the financial year to which the report relates
- b) To provide a report on performance against the budget of the municipality or municipal entity for that financial year
- c) To promote accountability to the local community for the decisions made throughout the year by the municipality or municipal entity

2.4. Annual Report Requirements

The annual report of a municipality must include:-

- i. The annual financial statements of a municipality, and in addition, if section 122 (2) applies, consolidated annual financial statements, as submitted to the Auditor-General for audit in terms of section 126 (1);
- ii. The Auditor-General audit report in terms of section 126 (3) on those financial statements;
- iii. The annual performance report of the municipality prepared by the municipality in terms of section 46 of the Municipal Systems Act;
- iv. The Auditor-General's audit report in terms of section 45 (b) of the Municipal Systems Act, Act 32 of 2000;
- v. An assessment by the municipality's Accounting Officer of any arrears on municipal taxes and service charges;
- vi. An assessment by the municipality's Accounting Officer of the municipality's performance against the measurable performance objectives referred to in section 17 (3) (b) for revenue from each source and for each vote in the municipality's approved budget for the relevant financial year;
- vii. Particulars of any corrective action taken or to be taken in response to issues raised in the audit reports referred to in paragraphs (b) (d);
- viii. Any recommendation as determined by the municipality

3. Submission and Tabling of the Annual Report

In terms of section 127 (5) of the MFMA, the Accounting Officer must immediately after the annual report is tabled, make public the annual report, invite the local community to submit the representations in connection with the annual report and submit the annual report to the Auditor-General, the relevant provincial treasury and the provincial department responsible for local government in the province.

The annual report of the municipality for the 2012/13 financial year was tabled in the Council at its meeting held on 24th January 2014 in terms of section 127 (2) of the Local Government: Municipal Finance Management Act, 2003.

Indeed the Accounting Officer, immediately after the annual report was tabled, made public the annual report, and invited the local community to submit the representations in connection with the annual report and also submitted the annual report to the Auditor-General, the relevant provincial treasury and the provincial department responsible for local government in the province.

In the minutes of the Council meeting held on the **24th January 2014**, Council resolved:

- That the Annual Report of Bushbuckridge LM, inclusive of the Annual Financial Statements and the Report of the Auditor-General for the 2012/2013 financial year, BE NOTED.
- That the report BE REFERRED to the Municipal Public Accounts Committee (MPAC) for the oversight process as contemplated in section 129 of the Municipal Finance Management Act.
- That Councillors submit comments on the report to the Municipal Public Accounts Committee. (KIVO , The 31st January 2014, resolution should at least be like this)
- That the Municipal Public Accounts Committee REPORT BACK to Council by no later than end March 2013 as required by sections 32 and 129 of the Municipal Finance Management Act.

PROCESSES FOLLOWED BY MPAC

The MPAC adopted the following approach:

Memorandum forwarded to the Accounting Officer detailing the issues raised by the Auditor-General and requesting written responses, attached as **Annexure A**.

MPAC is still waiting for answers from the Accounting officer.

Public Hearings – dates are not yet allocated to departments where further deliberation will take place relating to the written responses received from Accounting Officer with 2012/2013 issues raised by Auditor General.

Provincial Legislature promised to offer Bushbuckridge Local Municipality's MPAC training with regard to conducting hearings. Consequently MPAC is awaiting a final date in this respect.

MPAC, after receiving training by Provincial Legislature, will immediately commence with the Hearings. The hearings will take into account the previous year, 2011/2012 and 2012/2013 issues raised by Auditor General since hearings for 2011/2012 issues raised by Auditor General could not be conducted due to late submission of responses by Accounting Officer.

Office of Auditor General was invited to a meeting where clarity was sought by MPAC from AG, regarding issues on the 2012/2013 Audit Report.

The MFIP Advisor deployed to the municipality was invited and issues of compliance were also discussed.

Representatives from the Office of the Auditor-General will be invited to attend hearings to be conducted soon.

CONCLUSION

The Chairperson and the members of Municipal Public Accounts Committee wishes to place on record its appreciation and gratitude to the office of the Auditor-General for the assistance and support rendered and more especially making available, to the Committee, representatives as and when invited by the municipality.

Of concern to MPAC are the following:

2.2. Audit Report

Municipal Public Accounts Committee has not received from the executive the Audit Action Plan that addresses all the issues raised by the Auditor-General. It must be brought to light that this is the second time (year) the executive failing to prepare the Audit Action Plan in line with MFMA section 131 and submitting such to MPAC. The Committee recommends that the following issues raised by the Auditor-general should be looked at in order to assist the municipality in formulating appropriate plans for financial recovery.

The municipality received a disclaimer of opinion for 2011/2012 and 2012/2013 financial years.

The same audit issues repeated from previous year's audit are reflected with R at the end each issue raised this year.

Basis for disclaimer of opinion

4.2.1 Accumulated surplus (R)

Due to the disclaimer of opinion issued on the prior year's financial statements, Auditor General was unable to determine the extent of the effect of the limitations on the closing balance of accumulated surpluses in the statement of changes in net assets.

The municipality could not provide sufficient appropriate audit evidence to support the net income recognised directly in net assets and the correction of the prior period error of R257 737 983 and R127 722 258, respectively, as disclosed in the statement of changes in net assets.

Consequently, Auditor General could not determine whether the accumulated surplus as disclosed in the statement of changes in net assets was fairly stated.

4.2.2 Property, plant and equipment (R)

Auditor General could not obtain sufficient appropriate evidence to support property, plant and equipment as disclosed in note 8 to the financial statement and was unable to confirm this by alternative means.

Auditor General was unable to physically verify assets included in fixed asset register. In addition, assets belonging to the municipality could not be traced to the fixed asset register, while some were duplicated in the fixed asset register.

In terms of GRAP 17, Property, plant and equipment, an entity shall recognise an item of property, plant and equipment that qualifies for recognition as an asset. The municipality included properties that it does not exercise control over in the fixed asset register. Sufficient appropriate audit evidence could not be obtained that all of the properties included in the fixed asset register belonged to the municipality.

In terms of GRAP 17, Property, plant and equipment, an item of property, plant and equipment that qualifies for recognition as an asset shall be initially measured at its cost. Contrary to the requirement of GRAP 17, the municipality initially recognised some of the assets using the budget amount. In addition, the deemed cost as per Directive 4 was not correctly calculated by the municipality.

Consequently, Auditor General could not determine whether property, plant and equipment amounting to R1 266 707 786 as disclosed in note 8 to the financial statements was fairly stated.

4.2.3 Receivables from exchange and non-exchange transactions (R)

Auditor General could not obtain sufficient appropriate audit evidence to support consumer debtors as disclosed in note 3 and 5 to the financial statements. I could not confirm this by alternative means. In addition, consumer debtors selected from the valuation roll could not be traced to the accounting records of the municipality.

In terms of GRAP 104, Financial instruments, an entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. The provision for debt impairment as disclosed in note 5 to the financial statements amounting to R713 392 882 was not calculated in terms of GRAP 104.

Consequently, Auditor General could not determine whether consumer receivables amounting to R229 692 698 and R60 716 267 in note 3 and 5 respectively to the financial statements were fairly stated.

4.2.4 Payables from exchange transactions (R)

Auditor General could not obtain sufficient appropriate audit evidence to support retentions and could not confirm this by alternative means. Consequently nor could they determine whether payables from exchange transactions amounting to R64 883 259 as disclosed in note 10 to the financial statements were fairly stated.

4.2.5 Unspent conditional grants(R)

The municipality retrospectively adjusted unspent conditional grants and conditional revenue for the municipal infrastructure grant as a prior period error in terms of GRAP 3 by R127 722 258 Auditor General could not obtain sufficient appropriate audit evidence to determine whether these adjustments were required and could not confirm this by alternative means. Consequently, AG could not determine the effect or possible effect of these adjustments on the comparability of the unspent conditional grants and accumulated surpluses.

4.2.6 Property rates (R)

Included in the property rates were customers who could not be traced to the valuation roll as well as incorrect rates used to calculate the property rates of the municipality. In addition, properties from the supplementary valuation roll could not be traced to the ledger and in some instances, where they could be traced, the valuations were understated. Consequently, I could not determine whether the property rates stated at R237 921 149 in the financial statements were fairly presented.

4.2.7 Contracted services

Included in the contracted services of the municipality were transactions that were not properly classified and some that were incorrectly accounted for in the current period. In addition, sufficient appropriate audit evidence could not be obtained that some of the transactions recorded in the accounting records had occurred. AG could not confirm this by alternative means. Consequently they could not determine whether the contracted services stated at R41 535 192 in the statement of financial performance were fairly presented.

4.2.8 Grants and subsidies(R)

Grants and subsidies were not properly classified and some of the transactions were incorrectly accounted for in the current period. Consequently, grants and subsidies stated at R26 472 082 in the statement of financial performance were misstated.

4.2.9 General expenses(R)

Included in the general expenses of the municipality were transactions that were not properly classified and some that were incorrectly accounted for in the current period. In addition, sufficient appropriate audit evidence could not be obtained that some of the transactions recorded in the accounting records had occurred. AG could not confirm this by alternative means. Consequently they I could not determine whether general expenses stated at R80 291 782 in the financial statements were fairly presented.

4.2.10 Provisions(R)

The municipality could not provide sufficient appropriate audit evidence to support provisions amounting to R23 289 893 disclosed in the statement of financial position. Evidence to support the assumptions and other variables used by management to value the provision for landfill sites were not provided. Consequently, AG could not determine whether general expenses stated at R23 289 893 in the financial statements were fairly stated.

4.2.11 Commitments (R)

The municipality could not provide sufficient appropriate audit evidence to support commitments disclosed in note 29 of the financial statements. Unrecognised contractual commitments also were identified during audit. Consequently AG, could not determine whether the commitments stated at R450 065 266 in the financial statements is fairly presented.

4.2.12 Cash flow

Due to the possible effect of the items included in the basis for disclaimer, Auditor General could not satisfy himself as to whether the cash flow statement was fairly stated.

4.2.13 Distribution losses

Section 125(2) (d) (i) of the MFMA requires the municipality to disclose the particulars of any material losses in a note to the financial statements. The municipality did not disclose distribution losses with regard to water sales. AG was unable to determine the total extent of the understatement of distribution losses, as sufficient appropriate audit evidence could not be obtained.

4.2.14 Budget statement

GRAP 24 states that an entity shall present a comparison of the budget amounts for which it is held publicly accountable. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

(a) the approved and final budget amounts

(b) the actual amounts on a comparable basis.

The amounts disclosed in the financial statements in the statement of comparison of budget and actual amounts differed from the amounts as reflected in the approved budgets as follows:

- Expenditure – R17 957 000 (original budget)
- Expenditure – R18 418 000 (adjusted budget)

4.2.15 Aggregation of immaterial uncorrected misstatements

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

- Service charges reflected as R30 856 853 are misstated by R2 437 552
- Income from agency reflected as R11 740 730 is misstated by R1 005 875
- Grants reflected as R694 398 741 are misstated by R2 944 015
- Repairs and maintenance reflected as R31 531 457 are misstated by R10 023 874
- Other payables reflected as R80 901 229 are misstated by R16 334 050

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

- Other payables reflected as R80 901 229 by R1 119 716
- Grants reflected as R694 398 741 by R8 802 756
- Other income reflected as R2 455 234 by R2 437 552
- Inventory reflected as R3 036 953 by R3 036 953
- Repairs and maintenance reflected as R31 531 457 by R1 417 916

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

4.2.16 Restatement of corresponding figures

As disclosed in note 30 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of an error discovered during the year ended 30 June 2013 in the financial statements of the municipality, and for the year ended, 30 June 2012.

4.2.17 Material impairments (R)

The municipality had receivables for consumer debtors totalling R969 858 057 as disclosed in note 5 to the financial statements as at 30 June 2013 which had been long outstanding. The recoverability of these amounts is doubtful.

4.2.18 Material under spending of the budget

As disclosed in the statement of comparison of budget and actual amounts, the municipality materially underspent the budget on capital expenditure by R24 200 588 and on expenditure by R52 262 706. As a consequence, the municipality did not achieve its service delivery objectives.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Predetermined objectives: Material findings

Usefulness of information

4.2.19 Presentation

Section 46 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Measures to improve performance for 100% of the planned targets not achieved were not reflected in the annual performance report. This was due to a lack of policies and procedures to ensure that regulations were complied with.

4.2.20 Consistency

41. Section 41(c) of the MSA requires that the integrated development plan should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 83% of the reported objectives were not consistent with the objectives as per the approved integrated development plan. This was due to a lack of adequate reviews of the respective documents by management.

4.2.21 Measurability

The FMPPI requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 58% of the significantly important targets in relation to the overall mandate of the municipality were not specific in clearly identifying the nature and the required level of performance. This was because management was aware of the requirements of the FMPPI but chose not to apply the principles contained in the FMPPI.

The FMPPI requires that performance targets be measurable. The required performance could not be measured for 58% of the significantly important targets in relation to the overall mandate of the municipality. This was because management was aware of the requirements of the FMPPI but chose not to apply the principles contained in the FMPPI.

The FMPPI requires that indicators or measures should have clear, unambiguous data definitions so that data can be collected consistently and is easy to understand and use. A total of 42% of the significantly important indicators in relation to the overall mandate of the municipality were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was because management was aware of the requirements of the FMPPI but chose not to apply the principles contained in the FMPPI.

The FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. A total of 42% of the significantly important indicators in relation to the overall mandate of the municipality were not verifiable in that valid processes and systems that produced the information on actual performance did not exist. This was due to management not ensuring that processes and procedures are developed to ensure adequate collection, collation, verification and storage of actual performance information.

4.2.22 Reliability of information

The FMPPI requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the information presented with respect to infrastructure and basic service delivery. This was because the municipality could not provide sufficient appropriate evidence in support of the information presented with respect to the objectives.

Compliance with laws and regulations

4.2.23 Annual financial statements, performance report and annual report

The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements

identified by the auditors in the submitted financial statements were not adequately corrected, which resulted in the financial statements receiving a disclaimer of opinion.

The draft annual report for the year did not include an assessment by the accounting officer of any arrears on municipal taxes and service charges, an assessment by the accounting officer of the municipality's performance against measurable performance objectives for revenue collection from each revenue source and for each budget vote, and a report of the audit committee.

4.2.24 Asset and liability management

An adequate management, accounting and information system was not in place to account for liabilities, as required by section 63(2) (a) of the MFMA.

An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2) (c) of the MFMA.

An adequate management, accounting and information system was not in place to account for assets, as required by section 63(2) (a) of the MFMA.

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

4.2.25 Audit committee

The audit committee did not advise the council on matters relating to internal financial control and internal audits, risk management, accounting policies, effective governance, performance management and performance evaluation, as required by section 166(2)(a) of the MFMA.

The audit committee did not advise the council on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.

The audit committee did not advise the council on matters relating to compliance with legislation, as required by section 166(2) (a) (vii) of the MFMA.

The audit committee did not respond to the council on the issues raised in the audit reports of the auditor-general, as required by section 166(2) (c) of the MFMA.

4.2.26. Budgets

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

Quarterly reports were not submitted to the council on the implementation of the budget and the financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.

Monthly budget statements were not submitted to the mayor, relevant provincial treasury and accounting officer, as required by section 71(1) of the MFMA.

4.2.27 Conditional grants received

The allocation for the municipal infrastructure grant was utilised for purposes other than those stipulated in the grant framework, in contravention of section 16(1) of DoRA.

Unspent conditional grant funds were not approved by the National Treasury for retention and were not surrendered to the national revenue fund, as required by section 21(1) of DoRA.

4.2.28 Expenditure management

Money owing by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2) (e) of the MFMA.

An effective system of expenditure control was not in place, as required by section 65(2) (a) of the MFMA.

An adequate management, accounting and information system was not in place to recognise expenditure when it was incurred and to account for creditors and payments made, as required by section 65(2)(b) of the MFMA.

Reasonable steps were not taken to prevent unauthorised and irregular expenditure, as required by section 62(1) (d) of the MFMA.

4.2.29 Consequence management

Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.

Unauthorised expenditure was not authorised through an adjustment budget, as required by section 32(2) of the MFMA.

4.2.30 Human resource management

An acting chief financial officer was appointed for more than six months, in contravention of section 54A (2A) of the MSA.

The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies, as required by Municipal Regulation on Minimum Competency Levels 14(2) (b).

Finance officials at middle management did not meet the prescribed competency areas, as required by Municipal Regulations on Minimum Competency Levels 8 and 9.

4.2.31 Procurement and contract management

Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value below R200 000 had been procured by means of obtaining the required price quotations, contrary to Supply Chain Management (SCM) Regulation 17(a) and (c).

Sufficient appropriate evidence could not be obtained that quotations had been accepted from only prospective providers who were registered on the list of accredited prospective providers and met the listing requirements prescribed by the SCM policy, in contravention of SCM Regulations 16(b) and 17(b).

Goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM Regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM Regulation 36(1).

Invitations for competitive bidding were not always advertised for the required minimum period, as required by SCM Regulation 22(1) and 22(2).

Contracts and quotations were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding and quotations, in contravention of SCM Regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.

The preference point system was not applied in all procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No. 5 of 2000) (PPPFA) and SCM Regulation 28(1) (a).

Contracts and quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1) (f) of the PPPFA.

The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2) (b) of the MFMA.

The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2) (c) of the MFMA.

Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act of South Africa, 2000 (Act No. 38 of 2000) and CIDB Regulation 18.

Contracts and quotations were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by SCM Regulation 43.

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

Awards were made to providers who were in the service of other state institutions or whose directors or principal shareholders were in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM Regulation 44. Similar awards had been identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process, in accordance with SCM Regulation 38(1).

Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM Regulation 46(2)(e).

Sufficient appropriate audit evidence could not be obtained that all contracts and quotations had been awarded in accordance with the legislative requirements and a procurement process that is fair, equitable, transparent and competitive, as most SCM documents could not be provided.

4.2.32 Revenue management

An adequate management, accounting and information system was not in place to account for revenue, debtors and receipts of revenue, as required by section 64(2) (e) of the MFMA.

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

Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2) (b) of the MFMA.

Interest was not charged on all accounts in arrears, as required by section 64(2) (g) of the MFMA.

4.2.33 Strategic planning and performance

The performance management system of the municipality did not provide steps to improve performance with regard to those development priorities and objectives where performance targets were not met, as required by section 41(1) (d) of the MSA.

The municipality did not set measurable performance targets for the financial year with regard to each of the development priorities and objectives and key performance indicators set out in the integrated development plan, as required by section 41(1)(b) of the MSA and Municipal Planning and Performance Management Regulation 12(1) and 12(2)(e).

The audit committee did not make recommendations to the council, as required by Municipal Planning and Performance Management Regulation 14(4) (a) (ii).

The audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by Municipal Planning and Performance Management Regulation 14(4) (a) (iii).

The internal audit unit did not audit the performance measurements on a continuous basis or submit all quarterly reports on their audits to the municipal manager and the performance audit committee, as required by Municipal Planning and Performance Management Regulation 14(1) (c).

The annual performance report for the year under review did not include a comparison with the previous financial year, and measures taken to improve performance, as required by section 46(1) (b) and (c) of the MSA.

The municipality did not have and maintain effective, efficient and transparent systems of financial and risk management and internal controls, as required by section 62(1) (c) (i) of the MFMA.

4.2.34. Internal control

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

4.2.35. Leadership

Oversight responsibility was not exercised regarding financial and performance reporting and compliance as well as related internal controls.

Effective human resource management was not implemented to ensure that adequate and sufficiently skilled resources were in place and that performance was monitored.

Policies and procedures that enable and support the understanding and execution of internal control objectives, processes and responsibilities were not established and communicated to everyone.

The developed action plan to address external and internal audit findings was not adequate, as recurring audit findings were identified.

4.2.36 Financial and performance management

Management did not prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information.

Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting.

Management did not implement controls over daily and monthly processing and reconciling of transactions.

Management did not review and monitor compliance with applicable laws and regulations.

4.2.37 Governance

Management did not adequately implement internal audit recommendations.

Management did not report internal control findings to the council, who could have assisted in ensuring that management addressed internal control deficiencies as recommended.

OTHER REPORTS

4.2.38 Investigations in progress

An investigation is being conducted into the disaster grant funds for 2010-11. The investigation was still ongoing at the reporting date.

An investigation into stolen license documents is underway.

3. GENERAL COMMENTS ON THE CONTENT OF THE ANNUAL REPORT

- All Councillors should play an active role in the review of the annual report.
- Efforts should be made to include public participation in the review of the annual report.
- The annual report was not compiled according to Circular no.63

4. RECOMMENDATIONS

The Municipal Public Accounts Committee recommends that:-

- The municipality must employ a qualified Chief Financial Officer who has tremendous expertise in financial management.
- The municipality must fill all the vacant critical posts in the management and operational level with qualified and experienced individuals
- Management should give monthly report on the progress made regarding issues raised by the Auditor-General.
- A program of management meetings should be handed to MPAC
- A project steering committee must be established to ensure quality and completion of projects.
- Irregular and unauthorized expenditure be brought to the attention of MPAC for proper consideration.
- Council having considered the annual report in its entirety for the 2011/12 financial year, adopt the oversight report.
- The action plan should include all audit queries raised in the AG's report.
- The Executive Mayor should ensure that the Accounting Officer implement the action plan.
- All the working sessions and strategic planning of MPAC be fully budgeted for.

Author: Cllr R.D. Makhubela

MPAC Chairperson

PRELIMINARY QUESTIONS TO EXECUTIVE

1. IRREGULAR EXPENDITURE

As disclosed in note 30 of the financial statements, irregular expenditure has increased by R 5 457 434 compared to the previous financial year.

- a) Why did the Accounting Officer contravene section 62 (1) (d) of the Municipal Finance Management Act?
- b) Why did the Accounting Officer not supply the Auditor-General with documents that support the irregular expenditure amount in the financial statements?
- c) Does the municipality have a Supply Chain Management Policy as required by section 111 of the MFMA? And where proper procurement procedures followed with this irregular spending?

2. UNAUTHORISED EXPENDITURE

As disclosed in note 29 of the financial statements, unauthorised expenditure of R449, 889, 625 was overstated by an amount of R 30, 306, 143.

- a) Why did the Accounting Officer contravene section 62 (1) (d) of the MFMA?
- b) What method was used to calculate the unauthorised expenditure? And what measures were taken to recover and correctly calculate the overstated amount?
- c) Why did the Accounting Officer not take effective steps to prevent the unauthorised expenditure?
- d) Can the Accounting Officer give a detailed report to what had or has conspired to the overstated amount of R30, 306, 143?

3. MATERIAL IMPAIRMENTS

4. As disclosed in note 5 of the financial statements, there were material losses of R582, 279, 901 due debtors that were outstanding for longer than 12 months and these debtors are doubtfully recoverable.

- a) Why did the Accounting Officer contravene section 96 (a) of the Municipal Systems Act?
- b) Why did the municipality fail to recover the outstanding debtors in time?
- c) Does the municipality have a debt collection policy? What is it? If not, a debt collection policy must be drafted.

- d) Provide a breakdown of debtors in categories accordingly from the highest to the lowest owing debtor.

5. REVENUE MANAGEMENT

As disclosed in note 12 of the financial statements, government grants and subsidies are the municipality's highest source of revenue.

- a) Can the Accounting Officer provide us with a strategy on how to increase the municipality's revenue?
- b) Does the Accounting Officer interact with the Regional Managers as to which revenue strategies those best identify with their region?

6. PREDETERMINED OBJECTIVES

The reported performance against predetermined objectives was lacking in respect of the following:

The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability.

The following audit findings relates to the above criterion:

Adequate explanation for major variances between the planned and the actual reported targets were not provided, as required in terms of the relevant reporting guidance. In total 100% of the reported targets with major variances were not explained.

- a) Why did the Accounting Officer fail to comply with National Treasury guidelines?
- b) Why did the Accounting Officer fail to submit a correct document with all the reasons for variance explained
- c) What did the Accounting Officer do to remedy the situation?

Usefulness of Information

- Presentation
Improvement measures for a total of 100% of the planned targets which were not achieved were not disclosed in the annual performance report.

- a) Why did the Accounting Officer contravene section 46 of the Municipal Systems Act of South Africa, 2000?
- b) Why did the Accounting Officer not ensure that adequate internal policies and procedures are followed in the reporting of the performance information?

Measurability

A total of 100% of the indicators relevant to the technical department were not well defined as required by the Framework for Managing Programme Performance Information (FMPPI)

- a) Why did the Accounting Officer not furnish the Auditor-General with complete and accurate information /documentation relating to the performance development on water services, sanitation, energy, roads and bridges?
- b) Why did the Accounting Officer not oversee the completeness of projects whereas there is an under spending on the Municipal Infrastructure Grant (MIG) as disclosed in note 16 of the financial statements?

7. ACHIEVEMENT OF PLANNED TARGETS

Audit findings:

Of the total number of 266 planned targets, only 101 were achieved during the 2011/12 financial year. This was mainly due to under spending on the Municipal Infrastructure Grant relevant to the water services, sanitation as well as roads and bridges development.

- a) What prohibited the municipality to achieve the total planned targets?

8. COMPLIANCE WITH LAWS AND REGULATIONS

7.1. Annual Financial Statements

The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Some material misstatements of non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the

financial statements were corrected and the supporting records provided, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a disclaimer of audit opinion.

- a) Why did the Accounting Officer fail to comply with Section 122 of the MFMA?
- b) Why did the accounting officer contravene section 46(1) (a), (b) and (c) of the municipal Systems Act by not including the performance of the municipality and of external service providers?

The allocation of conditional grants was utilized for purposes other than those stipulated in the respective schedules in the DoRA framework, contravening the requirements of section 15 (1) of DoRA.

- a) Why did the Accounting Officer sanction the usage of the conditional grants for anything other than what is allocated for?
- b) Can a detailed report be given as to what the conditional grant was utilised for?

7.2. STRATEGIC PLANNING AND PERFORMANCE MANAGEMENT

The municipality did not set measurable performance targets with regard to each development priority and objective and it did not establish mechanisms to monitor and review the performance management system.

- a) Why did the Accounting Officer fail to comply with section 40 of the Municipal Systems Act?
- b) What measures is the Accounting Officer putting in place to ensure that the reported matters are corrected in the future?

7.3. BUDGETS

The municipality incurred expenditure in excess of the limits of the amounts provided for in the votes in the approved budget, in contravention of section 15 of the MFMA.

- a) Why did the Accounting Officer fail to comply with section 15 of the MFMA?
- b) Does the municipality have qualified Budget Manager?

7.4. PROCUREMENT AND CONTRACT MANAGEMENT

- Goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, as required by Supply Chain Management (SCM) Regulation 17 (a) and (c).

- Sufficient appropriate audit evidence could not be obtained that contracts and quotations had been awarded to only bidders who had submitted a declaration on whether they are employed by the state or connected to any person employed by the state as required by SCM regulation 13 (c).
 - Bid specifications for the procurement of goods and services through competitive bids had been drafted in an unbiased manner that allowed all potential suppliers to offer their goods and services as required by SCM regulation 27 (2) (a).
 - Invitations for competitive bidding had been advertised for the required minimum period as required by the SCM Regulation 22 (1) and (2).
 - Contracts and quotations had been awarded to bidders who had scored the highest points in the evaluation process, as required by section 2(1) (f) of the Preferential Policy Framework Act of South Africa, 2000 (Act No. 5 of 200) PPPFA.
 - The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2 (a) of the PPPFA and SCM Regulation 28 (1) (a).
 - Goods and services with a transaction value of above R500 000 had been procured by means of inviting competitive bids and that the Accounting Officer had approved deviations only if it was impractical to invite competitive bids as required by SCM Regulations 19 (a) and 36 (1).
 - Bid specifications were not always drafted by bid specification committees composed of one or more officials of the municipality as required by SCM Regulation 27 (3).
- a) Why did the Accounting Officer contravene SCM Regulations?
 - b) What are the current internal controls that are there in SCM?
 - c) Why was there no bid specification committee?
 - d) Why did management fail to review and monitor compliance with applicable laws and regulations in terms of SCM practices?
 - e) What measures has the Accounting Officer taken to mend the situation?

9. INTERNAL CONTROL

Leadership

- Oversight responsibility was not exercised regarding financial and performance reporting and compliance as well as related internal controls.
- Effective human resource management was not implemented to ensure that adequate and sufficiently skilled resources were in place and that performance was monitored.

- Policies and procedures that enable and support the understanding and execution of internal control objectives, processes and responsibilities had not been established and communicated to staff.
- The developed action plan to address external and internal audit findings was not adequate as recurring audit findings were identified.
- a) Why did the Accounting Officer fail to exercise adequate oversight responsibility regarding financial and performance reporting, compliance and related internal controls?
- b) What measures is the Accounting Officer putting in place to address the reported challenges from recurring in future?
- c) Why did the Accounting Officer fail to ensure that Human Resource Management is effectively implemented?
- d) Why did the Accounting Officer fail to address audit findings relating to the previous financial year?

Financial and Performance Management

- Management did not prepare regular, accurate and complete financial and performance reports that were supported and evidenced by reliable information.
- Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting.
- Management did not implement controls over daily and monthly processing and reconciling of transactions.
- Management did not review and monitor compliance with applicable laws and regulations
 - a) Why did the Accounting Officer fail to submit accurate financial and performance information?
 - b) Does the municipality have a proper filing system?
 - c) Why did the Accounting Officer fail to comply with laws and regulations?

Governance

- Management did not ensure that there was an adequate resourced and functioning internal audit unit that identified internal control deficiencies and recommended corrective action effectively.
- a) Why did the Accounting Officer not verify on the functionality of the internal audit unit?