

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND THE COUNCIL ON PHUMELELA LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Phumelela 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 South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMMA) and the Division of Revenue Act of South Africa (Act No. 12 of 2009) (DoRA). 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 the Republic of South Africa, 1996 (Act No. 108 of 1996) read with 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 the financial statements based on conducting the audit in accordance with the International Standards on Auditing and General Notice 1570 of 2009 issued in Government Gazette 32758 of 27 November 2009. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Accumulated surplus

4. As a result of the matters detailed below, I was unable to obtain sufficient appropriate audit evidence as to the completeness, existence, rights and obligations, valuation and allocation of accumulated surplus disclosed as R189 314 571 (2009: R196 067 498) in the statement of financial position and in the statement of changes in net assets:

- Sufficient supporting documentation could not be obtained for adjustments amounting to R31 234 285 related to prior period errors. Furthermore, these adjustments were not adjusted retrospectively in accordance with paragraph 43 of the SA Standard of GRAP, GRAP 3, *Accounting policies, changes in accounting estimates and errors* (GRAP 3). Information on the nature of the prior years errors and line items affected was also not disclosed as required by paragraph 43 of GRAP 3. The municipality converted to a new

- Paragraph 58 of the South African Statement of Generally Accepted Accounting Practice (SA Statements of GAAP), IAS 39 (AC 133), *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 for trade and other receivables amounting to R37 021 872 (2009: R47 063 776) as disclosed in note 2 to the financial statements, which 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 if IAS 39 had been applied correctly.
 - Paragraph 46(a) of IAS 39 states that 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
6. As a result of the matters detailed below, I was unable to obtain sufficient appropriate audit evidence as to the completeness, existence, valuation and allocation, and the municipality's rights to trade and other receivables of R40 939 742 (2009: R52 709 792) as disclosed in note 2 to the financial statements:

Trade and other receivables

- Sufficient supporting documentation for additions amounting to R61 110 303 could not be obtained and assets not in working condition amounting to R959 825 were not removed from the asset register.
- Sufficient supporting documentation could not be obtained for journals with a net debit impact of R167 012 490 on the current year's balance of property, plant and equipment. Owing to the lack of supporting documentation no alternative procedures could be performed to obtain the required audit assurance.

5. As a result of the matters detailed below, I was unable to obtain sufficient appropriate audit evidence as to the completeness, existence, valuation and allocation and the municipality's rights to property, plant and equipment disclosed as R157 070 998 (2009: R167 012 490) in note 6 to the financial statements:

Property, plant and equipment

- The municipality's records and information available did not permit the performance of alternative audit procedures regarding the accumulated surplus.
- Sufficient supporting documentation could not be obtained for pre-GRAP reserves and funds amounting to R10 404 795 which were directly transferred to the accumulated surplus. Due to the lack of supporting documentation it was not possible to determine the correctness of these entries during the process of unbundling.
- Accounting framework (from IMFO to SA Standards of GRAP) during 2010. The prior year restatements amounting to R16 358 851 (2008: R165 363 712) were disclosed in note 27 to the financial statements. I could not verify the restatements made as no supporting documentation was maintained regarding the conversion process.

permit the performance of alternative audit procedures regarding receivables and interest were misstated.

- The SA Statement of GAAP, IFRS 7 (AC 144), *Financial Instruments: Disclosures* in conjunction with SA Statement of GAAP, IAS 32, *Financial Instruments: Presentation* and IAS 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 receivables by customer classification.
- Sufficient supporting documentation could not be obtained for journals amounting to R14 574 971 and R21 535 260, respectively, debited and credited against receivables. The municipality's records and information available did not permit the performance of alternative audit procedures regarding trade and other receivables.

Trade and other payables

7. Contingent liabilities amounting to R24 919 354 have not been reclassified as trade and other payables in the financial statements. Furthermore, an amount of R16 753 that represented a cancelled cheque was included in trade and other payables. Consequently, trade and other payables were understated by R24 902 601, contingent liabilities overstated by R24 919 354 and expenditure overstated by R16 753.

Inventory

8. Sufficient appropriate audit assurance as to the completeness, existence, valuation and allocation, and the municipality's rights to inventory disclosed as R6 397 495 (2009: R6 524 662) in note 4 to the financial statements could not be obtained due to the lack of a proper system to account for inventory, inadequate supporting documentation for journals amounting to R6 253 954 and inadequate procedures during the year-end stock count. The entity's records did not permit the application of alternative procedures regarding inventory.

Cash and cash equivalents

9. As a result of the matters detailed below, I was unable to obtain sufficient appropriate audit evidence as to the existence, valuation and allocation, and the municipality's rights and obligations to cash and cash equivalents of R2 391 865 (2009: R3 546 284) as disclosed in note 1 to the financial statements:

- Included in cash and cash equivalents were unallocated deposits amounting to R259 847 (2009: R519 277). Consequently, trade and other receivables were overstated by R259 847 (2009: R519 277) and cash and cash equivalents understated by the same amount. The value-added tax (VAT) implications on these unallocated deposits were also uncertain and had not been considered. Due to the lack of information on the unallocated receipts, no alternative procedures could be performed.
- Sufficient supporting documentation could not be obtained for a journal with a net credit impact of R250 024 on the current year's balance of cash and cash equivalents. Owing to the lack of supporting documentation no alternative procedures could be performed to obtain the required audit assurance.

The municipality's records and information available did not permit the performance of alternative audit procedures regarding cash and cash equivalents.

10. The bank overdraft amounting to R3 546 284 for the prior year, as disclosed in note 1 to the financial statements, was incorrectly accounted for in terms of paragraphs 42 and 43 of the SA Standards of GRAP, GRAP 1, *Presentation of financial statements*. The overdraft had been inaccurately classified as current assets in note 1, instead of as current liabilities. Consequently, current assets are understated and liabilities are overstated by R3 546 284.

Value-added tax

11. The municipality's accounting system was inadequate to account for VAT. The general ledger accounts were therefore not used for VAT calculation purposes. Separate spreadsheets were maintained for completion of the VAT returns. During the audit, cases were identified where input VAT was erroneously claimed. Furthermore, cases were identified where output VAT was not declared on declarable revenue and where output VAT was erroneously declared. Consequently, I was unable to obtain sufficient appropriate audit evidence as to the completeness, valuation, existence and the municipality's rights to the VAT refundable disclosed as R2 787 046 in note 30.3 to the financial statements. Owing to the extent of shortcomings in respect of VAT no alternative procedures could be performed.

Leases

12. SA Standards of GRAP, GRAP 13, *Leases*, requires a lease to be classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. The municipality is party to a number of lease agreements that constitute finance leases, but that has been accounted for as operating leases. As the relevant information was not available I was not able to quantify the extent by which the property, plant and equipment, long-term liabilities, the current portion of long-term liabilities and accumulated surplus were misstated if GRAP 13 had been applied correctly.

Provisions

13. As a result of the matters detailed below, I was unable to obtain sufficient appropriate audit evidence as to the completeness, existence, valuation and allocation and the municipality's obligations to provisions of R1 558 013 (2009: R1 141 051) as disclosed in note 12 to the financial statements:

- A provision should be made for the municipality's present obligation incurred as a consequence of its past use of landfill sites in accordance with the SA Standards of GRAP, GRAP 19, *Provisions, contingent liabilities and contingent assets*. A provision has not been made for the environmental rehabilitation costs of restoring the municipality's landfill sites for the prior year. Furthermore, an independent valuer's estimation for the costs required to settle the municipality's present obligation disclosed as R450 000 could not be obtained.
- An actuarial valuation for post-retirement benefits amounting to R1 108 013 (2009: R1 141 051) as provided could not be obtained. Furthermore, no provision has been made for long-term service bonuses. Due to the lack of actuarial valuations, a reliable estimate of the misstatement could not be made.

The municipality's records and information available did not permit the performance of alternative audit procedures regarding provisions.

Revenue

14. As a result of the matters detailed below, I was unable to obtain sufficient appropriate audit evidence as to the completeness, accuracy, occurrence, cut-off and classification of revenue disclosed as R94 517 982 (2009: R68 853 812) in the statement of financial performance:
- I could not be provided with the approved tariffs as per the National Energy Regulator of South Africa for the proceeds from sale of electricity amounting to R4 743 489 (2009: R2 342 994). 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. The VAT, provision for doubtful bad debts, accumulated surplus, bad debts and contingent liabilities implications on these electricity tariffs were also uncertain and had not been considered.
 - An unexplained difference of R47 048 989 was identified between the approved valuation roll and the valuation roll on the system, which is used to levy property rates. I was therefore unable to perform all the procedures that I deemed necessary to confirm the occurrence, completeness and accuracy of property rates disclosed as R4 090 534 (2009: R2 272 887) in note 13 to the financial statements.
 - Services were not calculated and charged on a monthly basis by the municipality. 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 on revenue should have been had the services been billed monthly.
 - 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.
 - The management of the filing system did not function effectively, resulting in documents supporting revenue transactions amounting to R657 347 not being provided for audit purposes.
 - Sufficient supporting documentation could not be obtained for journals with a net debit impact of R532 234 on the current year's balance of revenue. Consequently, I could not confirm the accuracy, occurrence and classification of these journals. Owing to the lack of supporting documentation no alternative procedures could be performed to obtain the required audit assurance.
 - An unexplained difference for equitable share of R880 186 was identified between the bank statements (R34 577 814) and the amount as per DoRA (R35 458 000). I could not be provided with sufficient supporting documentation to reconcile this difference. The municipality's financial system and records did not permit the performance of alternative audit procedures.
 - An unexplained difference for municipal infrastructure grants of R2 152 300 was identified between the bank statements (R17 907 300) and the amount as per DoRA (R15 755 000). I could not be provided with sufficient supporting documentation to reconcile this difference. The municipality's financial system and records did not permit the performance of alternative audit procedures.
- 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 R62 654 737 (2009; R69 408 837) in the statement of financial performance:

- The management of the filing system did not function effectively, resulting in documents supporting payments amounting to R469 542 not being provided for audit purposes.
- Expenditure transactions amounting to R769 047 were incorrectly classified.
- Payments totalling R415 727 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.

Employee-related costs

16. Unreconciled differences of R868 682 were identified between the corresponding amount as disclosed in the financial statements and the prior year audited annual financial statements. I could not be provided with sufficient supporting documentation to reconcile these differences. Consequently, I was unable to obtain sufficient appropriate audit assurance as to the completeness, accuracy, occurrence and classification of employee-related costs disclosed as R18 501 597 in the statement of financial performance for the prior year. The municipality's financial system and records did not permit the performance of alternative audit procedures.

Contingent liabilities

17. Unreconciled differences of R2 067 613 were identified between the correspondence received from the municipality's attorneys and the amount as disclosed in the financial statements regarding contingent liabilities. I could not be provided with sufficient supporting documentation to reconcile these differences. The municipality's financial system and records did not permit the performance of alternative audit procedures. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness, valuation and allocation and municipality's obligation to contingent liabilities of R27 921 998 (2009; R17 478 094), as disclosed in note 34 to the financial statements.

Capital commitments

18. There were no contract management system in place for the identification and recognition of contracts and there were no satisfactory alternative procedures that I could perform to obtain reasonable assurance that all commitments were properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of commitments of R25 140 634 (2009; R1 648 238), as disclosed in note 31 to the financial statements.

Irregular expenditure

19. There was no proper system in place to account for and identify irregular expenditure and there were no satisfactory alternative procedures that I could perform to obtain reasonable assurance that all irregular expenditure was properly recorded. Furthermore, no supporting documentation could be obtained for irregular expenditure amounting to R861 581. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself

as to the completeness, existence, valuation and allocation of irregular expenditure of R9 092 134 (2009; R4 366 598), as disclosed in note 29.3 to the financial statements.

Unauthorised expenditure

20. There was no proper system in place to account for and identify unauthorised expenditure and there were no satisfactory alternative procedures that I could perform to obtain reasonable assurance that all unauthorised expenditure was properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness, valuation and allocation of unauthorised expenditure of (2009; R7 435 965), as disclosed in note 29.1 to the financial statements.

Fruitless and wasteful expenditure

21. There was no proper system in place to account for and identify fruitless and wasteful expenditure and there were no satisfactory alternative procedures that I could perform to obtain reasonable assurance that all fruitless and wasteful expenditure was properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness, valuation and allocation of fruitless and wasteful expenditure of R113 093 (2009; R486 775), as disclosed in note 29.2 to the financial statements.

Annual financial statements

22. Directive 4, paragraph 08A: Transitional provisions for medium- and low-capacity municipalities requires disclosure of the nature and amount of any measurement period adjustment recognised during the period as well as disclosure of information on the progress made towards measuring assets or liabilities in accordance with the requirements of standards of GRAP. These requirements were not disclosed as part of note 1.5 of the accounting policy, resulting in the disclosed information on the transitional provisions being incomplete.

23. SA Standards of GRAP, GRAP 2, *Cash flow statements*, requires that an entity shall report cash flows from operating activities using the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed. Contrary to the requirements, the cash flow statement was not disclosed using the direct method.

Disclaimer of opinion

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

Emphasis of matters

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

Restatement of corresponding figures

25. As disclosed in notes 27 and 28 to the financial statements, the corresponding figures for the financial year ended 30 June 2010 have been restated as the municipality has implemented the SA Standards of GRAP.

Irregular and fruitless and wasteful expenditure

26. As disclosed in note 29.3 to the financial statements, irregular expenditure to the amount of R9 092 134 was incurred due to proper processes regarding the payment of expenditure not being followed by the municipality.

27. As disclosed in note 29.2 to the financial statements, fruitless and wasteful expenditure to the amount of R13 093 was incurred as due care had not been taken, resulting in interest incurred for late payments.

Additional matter

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

Unaudited supplementary schedules

28. 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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 following key laws and regulations: MFMA, Local Government: Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and financial management (internal control).

Predetermined objectives

29. Material findings on the report on predetermined objectives, as set out on pages ... to ..., are reported below:

Non-compliance with regulatory and reporting requirements

Existence and functioning of a performance audit committee

30. The Phumelela Local 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 measurement

31. The Phumelela Local 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 implementation of a performance management system

32. The Phumelela Local Municipality did not implement 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

section 36, 38 and 41(2) of the MSA, and regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

Usefulness of information

The following criteria were used to assess the usefulness of the planned and reported performance:

- Consistency: Has the municipality reported on its performance with regards to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria:

Planned and reported performance targets not specific, measurable or time bound

33. For the selected objectives, 80% or more of the planned and reported targets were not:
- specific in clearly identifying the nature and the required level of performance
 - measurable in identifying the required performance
 - time bound in specifying the time period or deadline for delivery.

Reliability of reported performance information

The following criteria were used to assess the reliability of the planned and reported performance:

- Validity: Has the actual reported performance occurred and does it pertain to the entity, i.e. can the reported performance information being traced back to the source data or documentation?
- Accuracy: Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
- Completeness: All actual results and events that should have been reported have been included in the reported performance information.

The following audit findings relate to the above criteria:

No supporting source documents

34. Sufficient appropriate audit evidence in relation to any of the selected objectives could not be obtained. There were also no satisfactory audit procedures that I could perform to obtain the required assurance as to the validity, accuracy and completeness of the reported information.

Compliance with laws and regulations

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

35. Contrary to section 17(1) of the MFMA, the annual budget did not include all the required information.

The mayor did not adhere to his legislative responsibilities

36. Contrary to section 53(1)(c)(ii) of the MFMA, the mayor did not ensure that the council approved the municipality's service delivery and budget implementation plan within 28 days after the approval of the annual budget.

The accounting officer did not adhere to her statutory responsibilities

37. Contrary to section 62(1) of the MFMA, the accounting officer did not take reasonable steps to ensure that full and proper records of the financial affairs of the municipality were kept in accordance with any prescribed norms and standards.

The audit committee was not properly established

38. Contrary to section 166(1) of the MFMA, the municipality did not have an audit committee for the financial year.

The internal audit unit was not functioning properly

39. Contrary to section 165(2) of the MFMA, the internal audit unit of the municipality did not:

- prepare a risk-based audit plan and an internal audit programme
- advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to:

- i. internal audit
 - ii. internal controls
 - iii. accounting procedures and practices
 - iv. risk and risk management
 - v. performance management
 - vi. loss control
 - vii. compliance with the MFMA, the DORA and any other applicable legislation
- perform the duties assigned to it by the accounting officer.

Expenditure was not paid within the parameters set by the applicable legislation

40. Contrary to section 65(2)(e) of the MFMA, expenditure was not paid within the required 30 days from the receipt of an invoice, or such a period as prescribed for certain categories of expenditure.

The financial statements were not prepared in accordance with applicable legislation

41. Contrary to section 125(2)(e) of the MFMA, the municipality did not disclose all areas of non-compliance with the MFMA in the notes to the financial statements.

42. Contrary to section 64(2)(a) of the MFMA, the municipality did not have an effective revenue collection system.

43. Contrary to section 65(2)(c) of the MFMA, the municipality did not maintain a system of internal control in respect of creditors and payments.

44. Contrary to section 63(2)(c) of the MFMA, the municipality did not maintain a system of internal control in respect of assets.

45. 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 SA Standards of GRAP, GRAP 1, *Presentation of financial statements*.

Supply chain management (SCM) legislative requirements were not implemented or not adhered to

46. Contrary to section 116(1)(a)(i) of the MFMA, goods and services were supplied by providers and payments made to providers without a written signed contract.

47. Contrary to section 116(2)(b) of the MFMA, the performance of contractors was not monitored on a monthly basis.

48. Contrary to section 116(2)(c) of the MFMA, capacity was not established in the municipality to ensure the contracts were properly enforced and monitored.

49. Contrary to section 112(1) of the MFMA, the SCM policy was in conflict with the MFMA and the SCM regulations.

50. Contrary to section 41(2) of the MFMA, no risk assessment was performed for the identification, consideration and avoidance of potential risks in the SCM system.

Expenditure was incurred otherwise than in accordance with sections 15 of the MFMA resulting in unauthorised expenditure

51. Contrary to section 15 of the MFMA, 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.

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

52. Contrary to section 1 of the MFMA, 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.

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

53. Contrary to section 1 of the MFMA, expenditure incurred was made in vain and could have been avoided based on the fact that reasonable care had been exercised.

INTERNAL CONTROL

54. 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, MSA, DORA and Municipal Structures Act of South Africa, (Act No. 117 of 1998), but not for the purpose of expressing an opinion on the effectiveness of internal control.

55. The matters reported below are limited to the significant deficiencies regarding the basis for disclaimer of opinion paragraph, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.



30 November 2010

Franshyn - (re Maw)
Bloemfontein

56. A special investigation was conducted to probe alleged irregularities with regard to expenditure and the administration of VAT. No report had been issued at the reporting date.
57. The South African Revenue Service (SARS) is currently performing a VAT audit. The investigation was still ongoing at the reporting date.

Investigations

OTHER REPORTS

Ongoing monitoring and supervision were not undertaken to enable an assessment of the effectiveness of internal control over financial and performance reporting.

Internal audit did not fulfill its responsibilities as set out in legislation and in accordance with accepted best practice and standards.

• Governance

The financial statements were subject to material amendments resulting from the audit. Requested information was not available and supplied without any significant delays.

• Financial and performance management

PROFAC resolutions had not been substantially implemented.

External audit findings were not addressed.

Actions were not taken to address risks relating to the achievement of complete and accurate financial and performance reporting.

• Leadership

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