
RESOLUTIONS OF THE PROVINCIAL PUBLIC ACCOUNTS COMMITTEE

SECOND REPORT, 2010

RESOLUTION NO. 6

(As presented to the North West Legislature)

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF MORETELE LOCAL MUNICIPALITY FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008.

The Committee, having heard evidence on 26 January 2010 on the aforementioned Report of the Auditor-General (AG) for the financial year ended 30 June 2008, **wishes to express its concern over the following:**

1. Housing projects amounting to R126 260 124, built in terms of sections 9 and 10 of the Housing Act, 1997 (Act No. 107 of 1997) were erroneously disclosed as capital additions. These assets did not comply with the definition of an asset in terms of GAMAP 17, Property, Plant and Equipment, and should not have been capitalised.
2. The municipality did not have a fixed asset register as is required in terms of section 96 of the MFMA.
3. The municipality acts as an agent of the North West Department of Developmental Local Government and Housing for housing projects in the Moretele area. During the year under review, the municipality committed expenditure of R77 863 734 on behalf of the provincial department, which was erroneously accounted for as income and expenditure in the financial statements as non-accredited municipalities are required to have separate accounts for the housing projects.
4. Conditional grant income was only accounted for to the extent of the actual expenditure. However, the municipality received grants income totalling R37 408 330 from various spheres of government, which could not be traced to supporting documentation. Thus it was not possible to determine whether these deposits were conditional grants or whether the municipality complied with the conditions of the grants.
5. The municipality did not perform a reconciliation between the creditors statement and the accounting system which resulted in a difference of R2 217 679 between the creditors statement of a water service provider and the accounting records.
6. Unspent conditional grants and receipts amounting to R26 238 910 were not backed by investments or bank accounts. This is an indication that conditional grants were utilised to fund operational expenditure, which constitutes irregular expenditure.
7. Municipal Supply Chain Management Regulations requiring three formal price quotations were not followed for expenditure totalling R2 579 423. Furthermore this was not disclosed in the annual financial statements as per the requirements of Section 125(2)(d) of the MFMA.
8. Actual expenditure exceeded the approved budget by R13 571 200. This constitutes unauthorised expenditure, which was not disclosed as per the requirements of section

- 125(2)(d) of the MFMA. Therefore unauthorised expenditure, as disclosed in note 36.1, to the financial statements was understated by R13 571 200.
9. The municipality did not have a sufficient system in place to identify related party transactions, which resulted in a contract amounting to R259 000 being awarded to an employee. This is in contravention of section 44 of the GNR.868 of 30 May 2005 Municipal Supply Chain Management Regulations. Furthermore the supply chain process for this contract was not followed as only two quotations were sourced instead of three.
 10. No supporting documentation for credit card expenditure by councillors totalling R473 314 was provided.
 11. Supporting documentation for debit journals amounting to R2 437 041 and credits journals totalling R1 400 731 could not be provided.
 12. The municipality's audit committee did not comply with section 166 (4)(b) of the MFMA which requires them to meet as often as required to perform their functions, but at least four times a year.
 13. Contrary to sections 63 and 64 of the MFMA and sections 96 and 97 of the MSA, the following key weaknesses were identified in respect of revenue:
 - o Revenue reconciliations were not prepared and reviewed on a weekly basis as required by section 62(2)(h) of the MFMA.
 - o No policies and procedures existed to facilitate the process for property transfers.
 - o Reconciliations were not performed between the valuation amounts on the valuation roll and the amounts recorded on the system.
 14. In terms of section 46(2) of the MSA, an annual performance report must form part of the municipality's annual report in terms of Chapter 12 of the MFMA. No reports had been prepared for the period under review.
 15. Contrary to section 41 of the MSA, the development priorities and objectives had not been included in the budget and performance report thereby not enabling the municipality to evaluate the quality and consistency of development priorities and objectives.
 16. The integrated development plan (IDP) of the Moretele Local Municipality did not include the key performance indicators and performance targets determined in terms of its performance management system, as required by section 26(i) of the MSA.
 17. The audit committee functioning as the performance audit committee did not meet at least twice during the financial year and did not review the performance management system and make recommendations in this regard to the council.
 18. 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.
 19. In terms of section 28 of the MSA and Municipal Planning and Performance Management Regulations, the municipality must, by means of a municipal wide structure for community participation or a forum that will enhance community participation, consult the local community in adopting the process for drafting the IDP. The IDP had not been reviewed and all the requirements stated above had not been adhered to.
 20. Contrary to section 25 of the MSA the municipal manager did not submit a copy of the IDP to the MEC for local government in the province within 10 days after the adoption of the 2007/08 IDP by the municipal council.

The committee recommends that:

1. Control measures should be implemented to ensure compliance with disclosure requirements in terms of GAMAP 17 **on or before 17 June 2010**.
2. The asset register should be updated **on or before 17 June 2010** and thereafter on a monthly basis and the asset register should reconcile with the general ledger control account. The asset register should contain the following minimal information:
 - Segmentation of assets (infrastructure)
 - Fair value of assets and date
 - Any impairment of assets and date
 - Useful life of asset and date
 - Residual value of the assets and date
 - Source funding of assets (i.e. grants, own revenue, loan account)
3. Separate accounts should be used for the housing projects and control measures implemented **on or before 17 June 2010** to monitor the correct recording of the transactions on behalf of the provincial government.
4. The municipality should submit a list of the various grants received and the purpose of these grants **on or before 17 June 2010** as well as the amounts spent. Control measures should be implemented to ensure the adequate recording of grants received and whether they are used for their intended purpose, and these measures should be monitored on a regular basis.
5. The difference of R2 217 679 between the creditors statement of a water service provider and the accounting records should be investigated and reconciled **on or before 17 June 2010**.
- 6-7. The irregular expenditure resulting from unspent conditional grants and receipts amounting to R26 238 910 that was not backed by investments or bank accounts, and the amount of R2 579 423 expended without obtaining 3 quotations should be investigated and reported to the relevant authority **on or before 17 June 2010**.
8. The unauthorised expenditure should be investigated in terms of section 171(4) of the MFMA **on or before 17 June 2010** and submitted to the relevant authority for condonement.
9. A sufficient system should be implemented **on or before 17 June 2010** to identify related party transactions. The contract amounting to R259 000 that was awarded to an employee in contravention of section 44 of the GNR.868 of 30 May 2005 Municipal Supply Chain Management Regulations and the fact that only two quotations were only two quotations were sourced instead of three, should be investigated and reported to the relevant authority **on or before 17 June 2010**.
10. The supporting documentation for credit card expenditure by councillors totalling R473 314 should be obtained from the relevant parties **on or before 17 June 2010** and checked to ensure that the credit cards were used for their intended purposes. Furthermore, control measures should be implemented **on or before 17 June 2010** to ensure that no credit cards are paid without the relevant supporting documentation.
11. Control measures should be implemented **on or before 17 June 2010** to ensure that no journals can be processed without the relevant documentation attached, and these control measures should be monitored on a regular basis.
12. Control measures should be implemented to ensure that the municipality's audit committee complies with section 166 (4)(b) of the MFMA **on or before 17 June 2010**.

- 13.1 Control measures should be implemented **on or before 17 June 2010** to ensure that revenue reconciliations are prepared and reviewed on a weekly basis as required by section 62(2)(h) of the MFMA.
- 13.2 Policies and procedures to facilitate the process for property transfers should be approved and implemented **on or before 17 June 2010**.
- 13.3 Control measures should be implemented **on or before 17 June 2010** to ensure that reconciliations are performed between the valuation amounts on the valuation roll and the amounts recorded on the system, and these measures should be monitored on a regular basis.
- 14-20. Control measures should be implemented to ensure compliance with all regulatory requirements in respect of performance information **on or before 17 June 2010**.