

any adjustment relating to property rates, stated at R35 060 357 in note 24 to the financial statements, was necessary.

Provisions

9. I was unable to obtain sufficient appropriate audit evidence for the environmental rehabilitation included in provisions, as the municipality did not consider the contaminated area and the useful lives could not be determined accurately due to a shortage of available field data. I was unable to confirm the provision for environmental rehabilitation by alternative means. Consequently, I was unable to determine whether any adjustment relating to the environmental rehabilitation, stated at R27 036 766 (2015: R28 499 921) in note 18 to the financial statements, was necessary.

VAT receivable

10. I was unable to obtain sufficient appropriate audit evidence for the VAT receivable, as VAT reconciliations were not performed. I was unable to confirm the correctness of the VAT receivable by alternative means. Consequently, I was unable to determine whether any adjustment to the VAT receivable, stated at R11 177 593 (2015: R15 795 107) in note 6 to the financial statements, was necessary.

Consumer debtors

11. The municipality did not recognise all consumer debtors in accordance with SA Standards of GRAP, GRAP 9, *Revenue from exchange transactions*, as debtors that were in the name of the municipality was incorrectly included in consumer debtors. Consequently, consumer debtors and accumulated surplus were overstated by R5 897 061 in note 7 to the financial statements.

Disclaimer of opinion

12. 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

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

Restatement of corresponding figures

14. As disclosed in note 46 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of errors discovered during 2015-16 in the financial statements of the municipality at, and for the year ended, 30 June 2015.

Material losses

15. As disclosed in note 44 to the financial statements, material electricity and water losses of R16 635 257 (2015: R2 815 278) and R2 230 407 (2015: R4 206 940), respectively, were incurred as a result of line losses, tampering and theft.

Material impairment

16. As disclosed in note 7 to the financial statements, a provision for the impairment of debtors of R417 332 805 (2015: R339 502 858) had been made with regard to irrecoverable consumer debtors.

Going concern

17. Note 48 to the financial statements indicates that the municipality's current liabilities exceeded its current assets by R110 264 367 as at 30 June 2016. In addition, unspent conditional grants were not cash-backed and creditors were not paid on time. These conditions, along with other matters as set forth in note 48, indicated a material uncertainty that may cast significant doubt on the municipality's ability to meet its service delivery objectives.

Irregular expenditure

18. Irregular expenditure of R27 838 704 (2015: R7 685 953) was incurred by the municipality, as disclosed in note 43 to the financial statements, mainly due to non-compliance with supply chain management (SCM) requirements.

Additional matters

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

Unaudited disclosure notes

20. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Report on other legal and regulatory requirements

21. In accordance with the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected key performance areas presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on them.

Predetermined objectives

22. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected key performance areas presented in the annual performance report of the municipality for the year ended 30 June 2016:
- Key performance area 1: basic service delivery on pages x to x
23. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned key performance areas. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for Managing Programme Performance Information (FMPPi).
24. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
25. The material findings in respect of the selected key performance area are as follows:

Key performance area: basic service delivery

Reliability of reported performance information

26. The FMPPi requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable 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 reported performance information. This was because the auditee could not provide sufficient appropriate evidence in support of the reported performance information, and the auditee's records not permitting the application of alternative audit procedures.

Additional matters

27. I draw attention to the following matters:

Achievement of planned targets

28. Refer to the annual performance report on pages x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the reliability of the reported performance information in paragraph 22 of this report.

Adjustment of material misstatements

29. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of key performance area 1: basic service delivery. As management subsequently corrected only some of the misstatements, I raised material findings on the reliability of the reported performance information.

Compliance with legislation

30. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Annual financial statements

31. 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 of non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently 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.

Procurement and contract management

32. I could not obtain sufficient appropriate audit evidence that all contracts were awarded in accordance with the legislative requirements and in a procurement process which is fair, equitable, transparent and competitive, as not all tender documents were provided for audit.
33. Thresholds for local content on designated sectors' procurement were not properly applied in accordance with the requirements of preferential procurement regulation 9.
34. Construction contracts were awarded to contractors that were not registered with the Construction Industry Development Board (CIDB) and did not qualify for the contract, in contravention of section 18(1) of the CIDB Act, 2000 (Act No.38 of 2000) and CIDB regulations 17 and 25(7A).
35. The performance of contractors or providers was not monitored monthly, as required by section 116(2)(b) of the MFMA.
36. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, in contravention of section 116(2)(c) of the MFMA.
37. 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 were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).
38. Persons in the service of the municipality, whose close family members had a private or business interest in contracts awarded by the municipality, failed to disclose such interest. This was in contravention of SCM regulation 46(2)(e), the code of conduct for councillors and the code of conduct for staff members issued in terms of the Municipal Systems Act, 2000 (Act No. 32 of 2000).

Expenditure management

39. Money owed by the municipality was not always paid within 30 days as required by section 65(2) (e) of the MFMA.
40. Reasonable steps were not taken to prevent unauthorised expenditure as required by section 62(1) (d) of the MFMA.
41. Reasonable steps were not taken to prevent irregular expenditure as required by section 62(1) (d) of the MFMA.
42. Reasonable steps were not taken to prevent fruitless and wasteful expenditure as required by section 62(1) (d) of the MFMA.

Conditional grants received

43. The municipal infrastructure grant allocation was not spent in accordance with the applicable grant framework, in contravention of section 17(1) of the Dora.
44. The regional bulk water infrastructure grant allocation was not spent in accordance with the applicable grant framework, in contravention of section 17(1) of the Dora.

Revenue management

45. Revenue due to the municipality was not calculated monthly, as required by section 64(2)(b) of the MFMA.
46. Accounts for municipal tax and charges for municipal services were not prepared monthly, as required by section 64(2)(c) of the MFMA.

Asset management

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

Liability management

48. 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.

Internal control

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

Leadership

50. The leadership of the municipality did not effectively oversee the internal controls of the municipality to address their risks. Prompt and adequate action was not taken to address weaknesses, which resulted in material misstatements in the financial statements and non-compliance with applicable legislation, and gave rise to unauthorised, irregular, and fruitless and wasteful expenditure.
51. Critical vacancies were not addressed, which had a further negative impact on the basic daily and monthly internal controls. The slow appointment process hindered the filling of vacancies.

Financial and performance management

52. The municipality did not have a proper filing system that supported the reported financial and performance information. This included information that related to the collection, collation, verification, storing and reporting of actual data and reconciliations supporting the financial statements and performance reporting. This was mainly due to a lack of skills and sufficient office and storage space to properly file documentation. Due to a lack of capacity, there was also a high reliance on the work of consultants for financial reporting.
53. The financial statements were not properly reviewed for completeness and accuracy prior to their submission for auditing. Audit findings communicated to the municipality during the audit were corrected by management, which resulted in material adjustments to the financial statements.

Governance

54. Although there was a functioning audit committee and internal audit unit, they provided limited assurance over financial and performance reporting.

Auditor General

Bloemfontein

30 November 2016



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

No	Activity	Timeframe
1.	Municipality submits draft Annual Report including consolidated Annual Financial Statements and performance report to Auditor General	August
2.	Auditor General audits Annual Report including consolidated Annual Financial Statements and Performance Data	September / October
3.	Municipality receives and starts to address the Auditor General's comments	November
4.	Mayor tables Annual Report and audited Financial Statements to Council, complete with the Auditor General's Report	January
5.	Audited Annual Report is made public and comment is invited	January / February
6.	Oversight Committee assesses Annual Report	February
7.	Council adopts Oversight Report	March
8.	Oversight report is submitted to Free State Provincial Government and other relevant stakeholders	March/April

COMMENT ON THE ANNUAL REPORT PROCESS

The Masilonyana Municipality has prepared the Annual Report in the new format prescribed by the National Treasury for annual reporting. The format has been adapted, where necessary, in line with the Municipality's organisational structure. The municipality also complied with the requirements of MFMA Circular 63 of the Annual Report template.

The objective remains to shorten the present cycle and complete it within six months of the end of the financial year to ensure that information that is given in the Annual Report is more topical and useful.

CHAPTER 2 – GOVERNANCE

INTRODUCTION TO GOVERNANCE

Good governance is enhanced by an effective interface between political office bearers, political structures, Councilors and officials. The delegation of appropriate powers to achieve and exercise all the powers relating to the performance on all the functions of the Municipality also displays good governance. Chapter 2 of this Annual Report integrates five pillars of good governance applicable in the Municipality.

COMPONENT A: POLITICAL AND ADMINISTRATIVE GOVERNANCE

INTRODUCTION TO POLITICAL AND ADMINISTRATIVE GOVERNANCE

Section 151 (3) of the Constitution states that the Council of a Municipality has the right to govern, on its own initiative, the local government affairs of the local community.

At the Masilonyana Local Municipality a clear distinction is made between the politically elected structure, namely Council, which is responsible for the oversight and legislative function of the Municipality, and the Administration.

The Council is chaired by the Speaker. The executive is headed by the Mayor with an Executive Committee of four (4) members. The Mayor is a full time Mayor and the other 3 Councilors are part time Councilors. The Speaker, who is a full time Speaker is involved in the day-to day running of Council from the political perspective.

The Administration is headed by the Municipal Manager, who is also the organization's Accounting Officer. Powers have been delegated to the different functions within the organization to ensure that roles, responsibilities and decision-making powers are clear and unambiguous.

2.1 POLITICAL GOVERNANCE

INTRODUCTION TO POLITICAL GOVERNANCE

The council performs both legislative and executive functions. It focuses on legislative, oversight and participatory roles, and has delegated its executive function to the Mayor and the Mayoral Committee. Its primary role is to debate issues publicly and to facilitate political debate and discussion. Apart from their functions as policy makers, Councillors are also actively involved in community work and in the various social programmes in the municipal area.

Council is also the principal political structure and the ultimate decision maker of the Municipality. The Speaker also carries out the duties of Chairperson of the Municipal Council under the Municipal Structures and Systems Act, enforces the Code of Conduct and exercises delegated authority in terms of the Municipal Systems Act.

The Mayoral Committee of Masilonyana Local Municipality comprised of four (4) Councilors and is chaired by the Mayor.

Political Parties in the Council comprise of the African National Congress, Democratic Alliance, Congress of the People and Vryheid front plus.

POLITICAL STRUCTURE

MAYOR

Cllr KS Koalane –

The Mayor presides at the meetings of the Executive Committee. She performs duties and functions including any ceremonial functions, and exercise powers delegated to the Mayor by Council or the Executive Committee.

SPEAKER

Cllr S.J. Mabitla –

Presides at Council meetings and performs duties and exercises powers delegated to the Speaker in terms of section 59 of Local Government: Municipal Systems Act, Act 32 of 2000.

CHIEF WHIP

Cllr. D. Modise – plays a key role in promoting good governance.

EXECUTIVE COMMITTEE

The Mayor of the Municipality, KS Koalane, assisted by the Mayoral Committee, heads the executive arm of the Municipality. The Mayor is at the centre of the system of governance, since executive powers are vested in him to manage the day-to-day affairs. This means that he has an overarching strategic and political responsibility. The key element of the executive model is that executive power is vested in the Mayor, delegated by the Council, as well as the powers assigned by legislation. Although accountable for the strategic direction and performance of the Municipality, the Mayor and Mayoral Committee are acting in concert with one another.

The following are Executive Committee Members

- Cllr. K.S. Koalane
- Cllr. D.E. Modise
- Cllr. P.T Botha
- Cllr. M.B. Tsoaela

Masilonyana Local Municipality is a Collective Executive Committee System and it consists of the Council, which is the highest decision making body and it meets quarterly with the Executive Committee meeting also meeting quarterly. Masilonyana Local Council is constituted of 20 Councillors (i.e. 10 ward councillors and 10 Proportional Representative Councillors). The names of Councillors and constituencies are summarized below:

COUNCILLORS

Below is a table that categorized the councillors within their specific political parties and wards:

Name of Councillor	Capacity	Political Party	Ward representing or proportional
Cllr. Z.P Thuthani	Part time	ANC	1
Cllr. M.L Moloele	Part time	ANC	2
Cllr. V.M Lekale	Part time	ANC	3
Cllr. K.A Sekharume	Part time	ANC	4
Cllr. M.B Tsoaela	Part time	ANC	5
Cllr. X. Nqwiliso	Part time	ANC	6
Cllr. S.C Mangoejane	Part time	ANC	7
Cllr. T.P Ramongalo	Part time	ANC	8
Cllr. T.J Chele	Part time	ANC	9
Cllr. D.E Modise	Part time	ANC	10
Cllr. K.S Koalane	Full time	ANC	All wards
Cllr. S.J Mabitle	Full time	ANC	All wards
Cllr. S.L Kgoe	Part time	ANC	8
Cllr. N.G Mafa	Part time	ANC	2
Cllr. M. Venter	Part time	DA	1
Cllr. M.M Kholumo	Part time	ANC	7
Cllr. K.P Dichakane	Part time	ANC	10
Cllr. J.A Pienaar	Part time	VF	
Cllr. P.T Botha	Part time	DA	6
Cllr. I.I Majara	Part time	COPE	3