

Report of the auditor-general to the Limpopo provincial legislature and the council on Greater Tubatse Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Greater Tubatse Municipality set out on pages x to x, which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

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 the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and

the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Irregular expenditure

6. The municipality did not investigate and evaluate the full extent of the irregular expenditure that was incurred during 2015. Consequently, I was unable to determine whether any adjustment to the opening balance of irregular expenditure as disclosed in note 53 to the financial statements was necessary as it was impractical to do so.

Contingent liabilities

7. I identified contingent liabilities amounting to R105 278 736 that were not included in the financial statements. The municipality did not maintain adequate records for contingent liabilities. Consequently, I was unable to determine the full extent of the understatement in contingent liabilities as it was impracticable to do so.

Commitments

8. I identified amounts totalling R208 663 277 disclosed as capital commitments in the financial statements that did not meet the criteria for commitments. The municipality did not maintain adequate records for accounting for commitments. Consequently, capital commitments stated at R250 370 842 on note 43 to the financial statements were overstated by R208 663 277.

Qualified opinion

9. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Greater Tubatse Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of MFMA and the DoRA.

Emphasis of matters

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

Restatement of corresponding figures

11. As disclosed in note 46 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of an errors discovered during 2016 in the financial statements of the municipality at, and for the year ended, 30 June 2015.

Significant uncertainties

12. With reference to note 44 to the financial statements, the municipality is the defendant in various lawsuits. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Fruitless and wasteful expenditure

13. As disclosed in note 52 to the financial statements, fruitless and wasteful expenditure to the amount of R149 996 was incurred due to interest on late payments.

Material under spending of the conditional grants

14. As disclosed in note 19 to the financial statements, the municipality has materially underspent its conditional grants by an amount of R22 087 169. The allocated grants were not in all instances used, as a consequence the municipality has not achieved its objectives of rendering quality services to the community.

Contractual disputes on material contract

15. Included in general expenditure, note 28 to the financial statements, is an amount of R123 956 632 (2015: R55 965 643) paid to a contractor for the electrification of villages under the Operation Mabone Project. The project is significantly behind schedule and the municipality is having disputes with the contractor regarding the quality of work done in comparison with amounts paid and an extension of the contract.

Additional matter paragraphs

16. The following additional matter paragraph will be included in our auditor's report to draw the users' attention to matter regarding the audit, the auditor's responsibilities and the auditor's report:

Unaudited disclosure notes

17. 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 thereon.

Unaudited supplementary schedules

18. 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

19. In accordance with the Public Audit Act of South Africa, 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 for selected development priorities 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 these matters.

Predetermined objectives

20. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of Greater Tubatse Municipality for the year ended 30 June 2016:
- Development priority 2: Basic service delivery and infrastructure development on pages x to x
 - Development priority 3: Local economic development on pages x to x
 - Development priority 6: Spatial rationale on pages x to x
21. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
22. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. 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).
23. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
24. The material findings in respect of the selected development priorities are as follows:

Usefulness of reported performance information

25. I did not identify material findings on the usefulness of the reported performance information for the following development priorities:
- Development priority 3 :Local economic development
 - Development priority 6 :Spatial rationale

Development priority 2: Basic service delivery and infrastructure development

Usefulness of reported performance information

26. The FMPPI requires that performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use. A total of 3% of important indicators were not consistent when compared to the IDP, SDBIP and the annual performance report. This was as a result of management not adhering to the requirements of the FMPPI due to indicator data collected inconsistency and as well as lack of standard operating procedures that are in line with the requirements of the FMPPI.

Reliability of reported performance information

27. The FMPPI requires auditees to 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. Due to inadequate systems I was unable to place reliance on the validity, accuracy and completeness of the reported performance for basic service delivery and infrastructure development. The municipality could not provide sufficient appropriate evidence in support of the reported performance information and differences were identified between the reported performance information and the supporting documentation.

Development priority 3: Local economic development

Reliability of reported performance information

28. The FMPPI requires municipalities to 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. Significantly important targets were not reliable when compared to the source information or evidence provided. The municipality could not provide sufficient appropriate evidence in support of the reported performance information and

differences were identified between the reported performance information and the supporting documentation.

Development priority 6: Spatial rationale

Reliability of reported performance information

29. The FMPPI requires municipalities to 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. Significantly important targets were not reliable when compared to the source information or evidence provided. The municipality could not provide sufficient appropriate evidence in support of the reported performance information and differences were identified between the reported performance information and the supporting documentation.

Additional matters

30. We draw attention to the following matters. Our conclusion is not modified in respect of these matters:

Achievement of planned targets

31. Refer to the annual performance report on pages x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the qualified conclusions expressed on the usefulness and reliability of the reported performance information in above paragraphs of this report

Unaudited supplementary schedules

32. The supplementary information set out on pages x to x do not form part of the annual performance report and is presented as additional information. We have not audited these schedules and, accordingly, we do not express a conclusion thereon.

Compliance with legislation

33. 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:

Financial statements, performance and annual reports

34. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.
35. 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 resulting in the financial statements receiving a qualified audit opinion.

Procurement and contract management

36. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by *Supply Chain Management Regulation (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).
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 MFMA 112(j) 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. I could not obtain sufficient appropriate audit evidence that contract were only awarded to providers whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.
39. The performance of contractors or providers was not monitored on a monthly basis as required by section 116(2)(b) of the MFMA

Expenditure management

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

Consequence management

41. Irregular, fruitless and wasteful expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Internal control

42. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are

limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

43. Oversight responsibility regarding financial and performance reporting and compliance and related internal controls was not exercised as those charged with governance did not investigate unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality in the prior years.
44. There was no detailed review of the financial statements and the annual performance report, resulting in several misstatements not identified and corrected.
45. Municipal officials that deliberately or negligently transgressed laws and regulations were not dealt with through an adequate performance management process as performance evaluations were not done for the year under review.
46. There is a lack of commitment to address deficiencies identified by the auditors as evidenced by many repeat findings. The action plan was not fully implemented and not regularly monitored.

Financial and performance management

47. There is lack of financial reporting skills in the municipality. Officials do not understand the requirements of the financial reporting framework which results in an over reliance on consultants
48. The basic accounting principles of daily and monthly accounting and reconciling have not been implemented.
49. Supply chain management processes were inadequate resulting in irregular expenditure.
50. The financial statements and other information to be included in the annual performance report are not reviewed for accuracy and completeness by the accounting officer.

Governance

51. The internal control monitoring mechanisms of the audit committee and the internal audit are not functioning optimally as many control weaknesses are only uncovered during the audit of the financial statements and performance information

Auditor General

Polokwane

30 November 2016



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence