



THE G.T.M.
GREATER TUBATSE
MUNICIPALITY

South Africa's first democratic platinum city



Public Notice

Report of the Auditor General to the Limpopo Provincial Legislature &
the Council on the Greater Tubatse Municipality

Addendum to the 2012/2013 Draft Annual Report

- The 2012 / 2013 Auditor-General's Report should be read with the 2012/2013 Draft Annual Report.
- All Stakeholders, including Community Members, Organised Structures, Magoši, Businesses, Ward Committees and Interested Parties are invited to submit written or representations to the Speaker's Office, Civic Centre, Burgersfort.
- Those who cannot read / write may come to the Speaker's office during office hours for assistance or seek assistance from CDW's and Councillors
- Written comments or Representations should be submitted on / or before the 28th March 2014, at 10:00.

For further enquiries, please contact Mr. M. L. Komane at 013-231-1277.

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REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE GREATER TUBATSE MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS.

Introduction

1. I have audited the financial statements of Greater Tubatse Municipality set out on pages XXX to XXX, which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and 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 Division of Revenue Act (Act No. 5 of 2012) (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 the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and 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 entity'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 entity'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 adverse audit opinion.

Basis for adverse opinion

Property, plant and equipment

6. I identified a number of assets belonging to the municipality that were not included in the accounting records. As the municipality did not maintain adequate records for property, plant and equipment, I was unable to determine the full extent of the understatement in

property, plant and equipment as it was impracticable to do so. Consequently, I was unable to determine whether any adjustment relating to property, plant and equipment stated at R737 570 009 (2012: R724 334 148) in the statement of financial position was necessary.

7. I was unable to physically verify items of property, plant and equipment as the municipality did not maintain adequate records for the identification thereof. I was unable to confirm the physical assets by alternative means. Consequently, I was unable to determine whether any adjustment relating to property, plant and equipment stated at R737 570 009 (2012: R724 334 148) in the financial statements was necessary.
8. The municipality did not review the residual values and useful lives of property, plant and equipment at each reporting date in accordance with SA Standards of GRAP 17, *Property, plant and equipment*. The municipality's records did not permit the application of alternative audit procedures. Consequently I was unable to determine whether any adjustments relating to property, plant and equipment stated at R737 570 009 (2012: R724 334 148) in the financial statements was necessary as it was impractical to do so.
9. Section 84(1)(f) of the Municipal Structures Act, 1998 (Act No. 117 of 1998) states that the district municipality has the powers and function with regards to municipal roads which form an integral part of a road transport system for the area of the district municipality as a whole. I was unable to obtain sufficient appropriate audit evidence that management has properly accounted for all roads as the municipality did not have systems and procedures in place to assess the rights and ownership thereof. I was unable to confirm the roads infrastructure by alternative means. Consequently, I was unable to determine whether any adjustments to property, plant and equipment / roads infrastructure stated at R619 983 755 (2012: R629 456 657) in the financial statements were necessary.

Contingent liabilities

10. The municipality did not disclose a contingent liability in respect of the uncertainties arising from the dispute declared by the unions and the pending litigation regarding the wage curve agreement. I was unable to confirm the contingent liabilities by alternative means. Consequently, I am unable to determine whether any adjustments to contingent liability stated at R3 700 000 (2012: R3 700 000) in the financial statements was necessary.
11. The municipality has disclosed R 3 700 000 as contingent liabilities in note 32 to the annual financial statements. In addition to this, the municipality is involved in litigation claims with service providers for an amount of R92 508 000 which has not been included in the above disclosure. Consequently, contingent liability as disclosed in note 32 to the annual financial statements is understated by this amount.

Commitments

12. The municipality did not record all prior year incomplete contracts which resulted in commitments being understated by R3 427 388. In addition, I was unable to obtain sufficient appropriate audit evidence that all commitments have been recorded as the municipality did not have adequate systems in place and I could not confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments to commitments stated at R14 529 252 in the financial statements were necessary.
13. The municipality could not provide contract files and other supporting documents for contracts committed amounting to R 28 990 000. There were no alternative audit procedures that I could perform to obtain reasonable assurance that contracts were committed. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as whether any adjustment relating to commitments as disclosed in note 46

to the financial statements were necessary.

Budget Information

14. The municipality did not present the statement of comparison of budget and actual amounts in accordance with the SA Standards of GRAP 24, *Presentation of Budget Information in Financial Statements*. Further, the municipality did not disclose an explanation of the material variances between the budget and the actual amounts. Material variances were noted between the budget and the actual amounts.
15. The following differences were noted between the original budget and the approved original budget. The municipality did not reconcile these differences. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the correctness of the budget statement disclosed in note 49 of the financial statements.

Description	Original Budget R	Approved Original budget R	Difference R
Transfer recognised – operational	177 844 000	135 493 400	42 345 600
Other own revenue	14 727 860	17 127 860	-2 400 000
Transfers and grants	4 290 000	3 900 000	390 000
Other expenditure	85 151 130	88 141 130	-2 990 000
Transfers recognised – capitals	-8 000 000	-15 739 973	-7 739 973

Receivables from exchange transactions

16. I was unable to obtain sufficient appropriate audit evidence regarding receivables from exchange transactions stated at R5 936 351 as per the statement of financial position, as I was not provided with the supporting documents for this balance. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustment relating to receivables from exchange transactions was necessary.

Receivables from non-exchange transactions

17. I was unable to obtain sufficient appropriate audit evidence regarding receivables from non-exchange transactions stated at R6 955 270 as per the statement of financial position, as no supporting documents for this balance could be provided. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustment relating to receivables from non exchange transactions was necessary.

Revenue

18. I was unable to obtain sufficient appropriate audit evidence on commission received, as internal controls were not established over water meter readings. The municipality has used the estimate for the entire financial year. I was unable to confirm the correctness of the commission received by alternative means. Consequently I was unable to determine whether any adjustments to commission received stated at R4 464 215 (2012: R4 022 180) in the statement of financial performance were necessary.
19. I was unable to obtain sufficient appropriate audit evidence for a journal passed to adjust revenue amounting to R6 392 195, as internal controls were not established over recording and safekeeping of records. Consequently, I was unable to determine whether any adjustments to revenue stated at R269 332 401 (2012: R252 511 272) in the financial statements were necessary.

Cash flow statement

20. SA Standards of GRAP 2, *Cash flow statements* requires presentation of a cash flow statement, summarising the entity's operating, investing and financing activities. The following differences were noted as per my recalculations and the amount disclosed in the cash flow statement for the current year and comparatives:

Items as per cash flow statement	2013 R	Recalculation R	Variances R
Sale of goods and services	73 118 796	64 146 890	8 971 906
Other receipts	13 350 070	22 321 976	(8 971 906)
Other cash items	15 058 700	0	15 058 700
Suppliers	(78 379 845)	(22 972 401)	(55 407 444)
Other payments	-992 000	0	(992 000)
Proceeds from sale of biological assets that form part of an agricultural activity	(992 000)	0	(992 000)
Total	20 163 721	63 496 465	(42 332 744)

The municipality did not reconcile these differences. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the correctness of the cash flow statement presented in the financial statements.

Cash and cash equivalents

21. The cash and cash equivalents disclosed in the financial statements are misstated by R4 456 395 as the cash book balance as per general ledger amount does not reconcile to the bank statements. The municipality did not reconcile this difference. Consequently, I am unable to determine whether any adjustments to cash and cash equivalent stated at R86 285 631 (2012: R44 771 084) in the financial statements were necessary.

Irregular expenditure

22. The municipality could not provide tender files and other supporting documents for contracts awarded amounting to R66 777 763. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that contracts were awarded in accordance with the supply chain management regulations. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of irregular expenditure as disclosed in note 46 to the financial statements.
23. The corresponding figure on irregular expenditure was understated by R23 987 696 as the correct amount from the prior year's accounting records was not brought forward. The municipality could not provide any explanation or supporting documentation for the differences noted above. Consequently, I was unable to determine whether any adjustments to the irregular expenditure in the financial statements were necessary.

Differences between the annual financial statements and trial balance

24. The municipality did not reconcile differences between the financial statements and the underlying accounting records. The impact on the balances is reflected in the table below. I therefore could not determine the effect on other account balances or classes of transactions contained in the financial statements. As a result, I was unable to determine whether any adjustments to these elements were necessary.

Description	Trial Balance R	AFS R	Variance R
Investment property	21 853 700	116 114 800	(94 261 099)
Property, plant and equipment	771 301 790	737 570 009	33 731 781
Other financial liabilities	(831 120)	1 039 746	208 625
Payables from exchange transactions	(20 522 447)	20 565 784	43 336
Provisions - current liabilities	(5 386 536)	5 397 698	11 161
Provisions -non- current liabilities	(1 174 325)	5 652 445	4 478 120

Aggregation of immaterial uncorrected misstatements

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

- Leave accrual at R5 080 623 is understated by R957 368
- Accrued leave pay journals not provided (overstatement of trade payables) R 815 340
- Receivable (Sekhukhune District Municipality) at R5 936 351 is understated by R909 556
- Provisions at R5 397 698 is overstated by R1 710 660
- Trade Payables at R 14 040 597 are understated by R657 051
- PAYE stated at R14 873 820 is understated by R80 678
- Fruitless and wasteful expenditure is understated R77 643
- Employee cost -third party payments at R100 387 481 are overstated by R93 608
- VAT payable stated at R4 297 585 is overstated by R1 145 092
- Property, plant and equipments(additions) are overstated R937 185
- Contingent liabilities were understated by R1 564 461
- Investments are overstated by R527 069
- Accumulated depreciation are overstated by R1 093 399
- Depreciation are overstated by R1 302 717
- Impairment of doubtful debt is overstated by R153 177
- Revenue for licences and permits at R5 750 760 is understated by R564 786
- Commission stated at R4 464 215 is understated by R75 567
- Revenue – rentals at R 526 064 is understated by R202 419
- Bad debts at R28 282 842 is understated by R1 504 995
- Cash and cash equivalents at R86 285 631 understated by R225 384

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

Adverse opinion

26. In my opinion, because of the significance of the matters described in the Basis for adverse opinion paragraphs, the financial statements do not present fairly the financial position of the Greater Tubatse Municipality as at 30 June 2013 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP, the requirements of the MFMA and the DoRA.

Emphasis of matters

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

Significant uncertainty

28. With reference to note 40 to the financial statements, the municipality is the defendant in several claims. The ultimate outcome of these matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Unauthorised expenditure

29. As disclosed in note 38.1 to the financial statements, the municipality incurred unauthorised expenditure of R6 898 598, mainly due to the overspending of two votes within the budget.

Material under spending of the conditional grants (Municipality Infrastructure Grants)

30. As disclosed in note 22 to the financial statements, the municipality has materially under spent its conditional grants to the amount of R14 520 078.

Restatement of corresponding figures

31. As disclosed in note 42 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of an error discovered during 30 June 2013 in the financial statements of the Greater Tubatse Municipality at, and for the year ended, 30 June 2012

Additional matter

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

Unaudited supplementary schedules

33. 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

In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

34. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages XX to XX of the annual

report.

35. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury *Framework for managing programme performance information (FMPPi)*.

The reliability of the information in respect of the selected development objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

36. The material findings are as follows:

Usefulness of Information

Presentation

Measures taken to improve performance not supported by sufficient appropriate evidence

37. Section 46 of the Municipal Systems Act, 2000 (Act 32 of 2000) (MSA) requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Adequate and reliable corroborating evidence could not be provided for 84% measures taken to improve performance as disclosed in the annual performance report. The municipality's records did not permit the application of alternative audit procedures due to limitations placed on the scope of my work. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the reliability of the measures taken to improve performance.

Reliability of Information

38. The National Treasury *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.
39. Significantly important targets with respect to the local economic development, technical services and community services departments were materially misstated.
40. This was due to the lack of standard operating procedures for the accurate recording of actual achievements, monitoring of the completeness of source documentation in support of actual achievements and frequent review of validity of reported achievements against source documentation.

Additional matters

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

Achievement of planned targets

42. Of the total number of 250 targets planned for the year, 123 of targets were not achieved during the year under review. This represents 49% of total planned targets that were not achieved during the year under review.

This was due to underspending of the conditional grant relevant to the technical program

Compliance with laws and regulations

43. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Annual financial statements, performance and annual report

44. 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 were not adequately corrected, which resulted in the financial statements receiving an adverse audit opinion.
45. Financial statements were not submitted for auditing within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.

Human resource management and compensation

46. An acting Chief financial officer was appointed for a period of more than six months, in contravention of section 56(1)(c) of the MSA.

Expenditure management

47. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
48. An effective system of expenditure control, including procedures for the payment of funds, was not in place, as required by section 65(2)(a) of the MFMA.
49. An adequate management, accounting and information system was not in place which accounted for creditors, as required by section 65(2)(b) of the MFMA.

Procurement and contract management

50. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value of below R200 000 were procured by means of obtaining the required price quotations, as required by Supply Chain Management (SCM) regulation 17(a) and 17(c).
51. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).
52. Contracts were extended without tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.
53. The performance of contractors as not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
54. Awards were made to providers who are 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 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).

Asset management

- 55. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
- 56. 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

- 57. A guarantee was issued for the debts of other person without the approval of National Treasury, in contravention of section 50(c) of the MFMA.

Revenue management

- 58. A credit control and debt collection policy was not implemented, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of MFMA.
- 59. An adequate management, accounting and information system which accounts for revenue was not in place, as required by section 64(2)(e) of the MFMA.
- 60. An effective system of internal control for revenue and debtors was not in place, as required by section 64(2)(f) and 97(e) of the MFMA.

Budgets

- 61. 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.

Internal audit

- 62. The internal audit unit did not advise the accounting officer on matters relating to compliance with the MFMA, the DoRA and other applicable legislation, as required by section 165(2)(b)(vii) of the MFMA.

Audit committee

- 63. The audit committee did not review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the entity, its efficiency and effectiveness and its overall level of compliance with legislation, as required by section 166(2)(b) of the MFMA.
- 64. The audit committee did not advise the accounting officer 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.

Consequences management

- 65. Irregular as well as fruitless and wasteful 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.

Internal control

- 66. I considered internal control relevant to my audit of the financial statements, annual 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 adverse opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

- 67. Oversight responsibility regarding financial and performance reporting and compliance and related internal controls was not exercised.
- 68. The accounting officer did not implement HR management effectively to ensure that adequate and sufficiently skilled resources were in place.
- 69. There was no detailed review of the financial statements and the annual performance report, resulting in several misstatements not identified and corrected.
- 70. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure.

Financial and performance management

- 71. The financial statements and other information to be included in the annual report were not reviewed for accuracy and completeness by the accounting officer.
- 72. Controls over daily and monthly processing and reconciling of transactions and assets were not implemented by the accounting officer.
- 73. Management did not implement daily and monthly controls over the recording and safe keeping of its assets.
- 74. Compliance with laws and regulations was not reviewed and monitored by the accounting officer.
- 75. There was no proper record keeping supporting the financial statements and the annual performance report, consequently requested information was not submitted.

Governance

- 76. The audit committee did not review the financial statements and annual performance report for adequacy, reliability and accuracy prior to submission for audit.
- 77. Internal audit did not review the financial and performance reports prior to its submission to the audit committee or external auditors.
- 78. The risk assessment procedures implemented by the municipality were not adequate, as all risks affecting the municipality were not identified.

Auditor General
Polokwane

10 February 2014



AUDITOR GENERAL
SOUTH AFRICA

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