

# **Report of the auditor-general to Limpopo Provincial Legislature and the council on Greater Tubatse local municipality**

## **Report on the financial statements**

### **Introduction**

1. I was engaged to audit the financial statements of the Greater Tubatse Municipality set out on pages xx to xx which comprise the statement of financial position as at 30 June 2014, the statements of financial performance, changes in net assets, cash flows and the statement of comparison of budget information with actual information 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), Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA) and for such internal control as the accounting officer determines 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 the financial statements based on conducting the 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. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### **Basis for disclaimer of opinion**

#### **Property, plant and equipment**

4. I identified a number of assets belonging to the municipality that were not included in the accounting records and financial statements. As the municipality did not maintain adequate records for property, plant and equipment, I was not able to determine the full extent of the understatement on property, plant and equipment stated at R1 449 089 504 (2013: R1 451 634 697) in the financial statements, as it was impracticable to do so.

5. I was unable to physically verify items of property, plant and equipment amounting to R93 304 032 as the municipality did not maintain adequate records for the identification of property, plant and equipment. 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 R1 449 089 504 (2013: R1 451 634 697) in the financial statements was necessary.
6. The municipality did not adequately assess at reporting date whether there were any indications that assets might be impaired, as required by SA Standards of GRAP 21 *Impairment of non-cash-generating assets*. I identified assets amounting to R16 519 450 with impairment indicators included in the accounting records and financial statements which were not subjected to impairment testing. Consequently I was unable to determine whether any adjustments relating to property, plant and equipment stated at R1 449 089 504 (2013: R1 451 634 697) in the financial statements was necessary.
7. The municipality did not account for retentions amounting to R2 906 756 for assets that were capitalised in 2012-13 in accordance with the requirements of SA Standards of GRAP 3 *Accounting policies, estimates and errors*. The retentions were accounted for as additions in the current year. Consequently, property, plant and equipment are understated by R2 906 756 (2013). Additionally, there is a consequential impact on the surplus for the period and the accumulated surplus.
8. The accumulated depreciation disclosed as per financial statements are misstated by R4 147 126 as the municipality did not calculate the depreciation as per accounting policy.
9. The underlying accounting records of the municipality did not in all instances include sufficient details of infrastructure assets to enable me to perform a physical verification of these assets. In addition, assets could also not in all cases be found at their recorded locations. I was unable to confirm the existence of these assets by alternative means. Consequently I was unable to determine whether any adjustment relating to infrastructure assets stated at R1 331 121 149 (2013: R1 330 538 539) disclosed in note 3 to the financial statements was necessary.
10. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for property, plant and equipment. The restatement was not made to rectify a prior year misstatement. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment to the property, plant and equipment corresponding figure stated at R1 451 635 in the financial statements was necessary.
11. I was unable to obtain sufficient appropriate audit evidence for roads and bridges included in the accounting records and financial statements of the municipality as adequate evidence of the deemed cost calculations could not be provided. I could not confirm the correctness of the deemed cost by alternative means. Consequently, I was unable to determine whether any adjustment to additions stated at R54 556 969 in the financial statements was necessary.
12. 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*. Property, plant and equipment with a gross carrying amount of R35 771 375 were included in the financial statements at a R12 729 net carrying amount while still being in use. I was not able to determine the correct net carrying amount of property, plant and equipment, as it was impracticable to do so.

13. I identified assets such as computer equipment, furniture and fittings and other assets to the value of R21 182 154 which were incorrectly classified as infrastructure assets. Consequently, infrastructure assets was overstated by R21 182 154 and the computer equipment and other assets was understated by R21 182 154. Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.
14. I was unable to obtain supporting documents for journals passed to the amount of R153 794 681, as internal controls were not established over recording and safekeeping of records. Consequently I was unable to determine whether any adjustments relating to property, plant and equipment stated at R1 449 089 504 (2013: R1 451 634 697) in the financial statements was necessary.
15. The net carrying amount of property, plant and equipment disclosed as per financial statements are misstated by R8 383 120. The municipality could not provide an explanation or supporting documentation for the differences noted. Consequently I was unable to determine whether any adjustments to the property, plant and equipment balance in the financial statements were necessary.
16. I identified differences to the amount of R714 066 688 between the amount that was disclosed as Property, plant and equipment per the 2013 closing balance and the 2014 opening balance. The municipality could not provide an explanation or supporting documentation for the differences noted. Consequently I was unable to determine whether any adjustments to Property, plant and equipment stated at R1 449 089 504 in note 3 to the financial statements were necessary.

## **Investment properties**

17. I identified a number of investment properties belonging to the municipality that were included in the accounting records and financial statements at no values. As the municipality did not maintain adequate records for investment properties, I was unable to confirm the adjustment by alternative means. Consequently I was unable to determine whether any adjustment relating to investment properties stated at R120 255 400 (2013: R116 114 800) in the statement of financial position was necessary.

## **Personnel cost**

18. I was unable to obtain supporting documents for journals passed to the amount of R8 464 000, as internal controls were not established over recording and safekeeping of records. I was unable to determine whether any adjustments to general expenses stated at R86 412 950 in the financial statements were necessary.

## **General expenses**

19. The municipality could not provide sufficient appropriate audit evidence for expenditure incurred amounting to R12 103 666. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that expenditure was actually incurred and in accordance with the applicable regulations. Consequently I was unable to determine whether any adjustment relating to general expenses stated at R42 141 871 in the statement of financial position was necessary.
20. I was unable to obtain journals passed to the amount of R60 828 225, as internal controls were not established over recording and safekeeping of records. Consequently,

I was unable to determine whether any adjustments to general expenses stated at R42 141 871 in the financial statements were necessary.

21. I was unable to obtain supporting documents for journals passed to the amount of R74 752 690, as internal controls were not established over recording and safekeeping of records. I was unable to determine whether any adjustments to general expenses stated at R42 141 871 in the financial statements were necessary.

## Cash flows statement

22. SA Standards of GRAP 2 *Cash flow statements*, requires that the municipality summarises its operating, investing and financing activities. I was unable to obtain sufficient appropriate audit evidence to confirm an amount of R72 572 023 included in other non-cash items in the cash flow statement. The entity's records did not permit the application of alternative procedures. 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

## Revenue

23. I was unable to obtain sufficient appropriate audit evidence on commission received, as internal controls were not established over water meter reading. The municipality used estimates for the whole 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 840 807 (2013: R4 464 215) in the statement of financial performance were necessary
24. During 2013 the financial year I reported that I was unable to obtain evidence of journals passed for revenue to the amount of R6 392 195, as internal controls were not established over recording and safekeeping of records. My audit opinion on the financial statements for the period ended 30 June 2013 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.
25. I was unable to obtain sufficient appropriate audit evidence about revenue received, as the municipality did not recognise traffic fines revenue in line with SA Standards of GRAP 23 *Revenue from non-exchange transactions* and GRAP 1 *Applying the probability test on initial recognition of revenue*. The entity's records did not permit the application of alternative procedures. Consequently, I am unable to determine whether any adjustments to the revenue stated at R 321 602 544 in the financial statements was necessary.
26. I was unable to obtain the journal passed to the amount of R45 683 668, 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 R321 602 544 (2013: R269 332 401) in the financial statements were necessary.
27. I was unable to obtain supporting documents for journals passed to the amount of R14 367 711, 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 R321 602 544 (2013: R269 332 401) in the financial statements were necessary.

28. Revenue on grants and subsidies was overstated by R17 633 895 and unspent conditional grants was understated by R17 633 895 as expenditure on conditional grants could not agree to the revenue recognised.
29. The municipality did not recognise all its revenue, in accordance with SA Standards of GRAP 23 *Revenue from non exchange transactions*. Amounts rolled over from the previous year were not included in revenue reported in the statement of financial performance. Consequently, revenue is understated by R 14 529 174.

## **Cash and bank**

30. I was unable to obtain year end journals passed to the amount of R10 000 000, as internal controls were not established over recording and safekeeping of records. Consequently, I was unable to determine whether any adjustments to cash and cash equivalents stated at R108 638 895 (2013: R86 285 631) in the financial statements were necessary.
31. The cash and cash equivalents disclosed are misstated by R15 260 868 as the cash book balance as per general ledger amount does not reconcile to the bank statement. Consequently, I am unable to determine whether any adjustments to cash and cash equivalent stated at R108 638 895 (2013: R 86 285 631) in the financial statements were necessary.

## **Receivables**

32. I identified differences to the amount of R18 029 903 between receivables presented in the statement of financial position and the debtors age analysis. The entity did not reconcile these differences. Consequently I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the correctness of the receivables presented in the financial statements.
33. I identified differences to the amount of R3 193 877 between the external confirmation for commission on water related transactions and amounts disclosed per annual financial statements. Consequently I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the correctness of the receivables stated at R1437 356 in note 10 to the financial statements.
34. The municipality did not provide sufficient allowance for impairment on long outstanding receivables as the municipality did not consider all irrecoverable debtors. Consequently, provision for doubtful debts was understated R4 512 542 and total receivables was overstated by R4 512 542.

## **Other interest bearing liabilities**

35. I identified differences to the amount of R2 564 692 between the external confirmation from the Development Bank of Southern Africa on loan transactions and amounts disclosed in the annual financial statements. The municipality's records did not permit the application of alternative procedures. Consequently I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the correctness of the other financial liabilities stated at R15 299 940 as per note 13 to the financial statements.

## **Provisions**

36. I was unable to obtain information to substantiate the provision for environmental rehabilitation disclosed in the annual financial statements for the year ended 30 June 2014 to the amount of R4 489 282. Management could not provide supporting documentation for this provision. I was unable to confirm the estimates for provisions by alternative means. Consequently, I was unable to determine whether any adjustment to provisions reflected at R6 771 861 in the financial statements was necessary.
37. I identified leave provisions to the amount of R10 439 740 that were included in the accounting records of the municipality and not disclosed in the financial statements. Consequently I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the correctness of provisions presented in the financial statements.
38. I identified differences to the amount of R4 719 162 between the amount that was disclosed as provisions per the 2013 closing balance and the 2014 opening balance. The municipality could not provide an explanation or supporting documentation for the differences noted. Consequently I was unable to determine whether any adjustments to the provisions stated at R678 536 in note 16 to the financial statements were necessary.

### **Contingent liabilities**

39. As per note 38 to the annual financial statements, the municipality has disclosed R3 662 000 as contingent liabilities. In addition, it has been established that the municipality is involved in additional litigation claims with service providers to an amount of R113 732 319, this amount has been excluded from the disclosure. Therefore contingent liabilities is understated R113 732 319.

### **Commitments**

40. The municipality could not provide contract files and other supporting documents for contracts committed amounting to R2 481 896 (2013: R28 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 to whether any adjustment relating to commitments as disclosed in note 38 to the financial statements were necessary.
41. I identified commitments to the amount of R64 574 670 that were not included in the financial statements. As the municipality did not maintain adequate records for commitments, I was unable to determine the full extent of the understatement in commitments as it was impracticable to do so. Consequently I was unable to determine whether any adjustment relating to commitments stated at R2 481 897 (2013: R14 529 252) in the statement of financial position was necessary.

### **Lease commitments**

42. The lease commitments disclosed as per financial statements are overstated by R3 776 914 as the lease commitments amount does not agree to the supporting documentation. Consequently I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the correctness of lease commitments presented in the financial statements.

## Trade and other payables

43. I identified differences to the amount of R2 906 935 between the disclosed amount for trade and other payable per the 2013 closing balance and the 2014 opening balance. The municipality could not provide an explanation or supporting documentation for the differences noted. Consequently I was unable to determine whether any adjustments to the trade and other payables stated at R38 895 325 in note 17 of the financial statements were necessary.
44. I identified differences to the amount of R9 873 095 between the external confirmation for trade payables on water related transactions and amounts disclosed per annual financial statements. Consequently I was unable to determine whether any adjustments to the trade and other payables stated at R38 895 325 in note 17 to the financial statements were necessary.

## Budget information

45. 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*. We further noted that the municipality did not disclose the explanation of the material variances between the budget and the actual amounts. Material variances were noted between the budget and the actual amounts.
46. The following differences were noted between the original budget as per the statement of comparison 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 24 to the financial statements.

Description	Adjusted Budget	Actual Expenditure/ Revenue	Variances
<b>Expenditure</b>			
Employee salaries and allowances	72 743 361	86 412 950.00	3 521 492
Employee social contributions	17 191 081		
Councillors remuneration	17 520 000	17 789 181	(269 181)
General expenses	68 629 611	42 141 871	26 487 740
General expenses - contracted services	15 550 000	13 404 989	2 145 011
Interest expenses external borrowings	1 850 000	16 288 622	(14 438 622)
Repair and maintenance - municipal assets	8 490 000	6 796 939	1 693 061
Inter-departmental charges	15 000 000	14 908 433	91 567.00
Grants and subsidies paid	-	3 698 699	(3 698 699)
Depreciation	6 300 000	59 775 155	(53 475 155)
Contributions to bad debts reserve	2 700 000	1 800 000	900 000
			<b>(39 611 733)</b>

Description	Adjusted	Actual Expenditure/ Revenue	Variances *
Property rates	(52 000 000)	(70 009 714)	18 609 714
Less : income foregone	600 000		
Service charges	(11 000 000)	(7 984 926)	(3 015 074)
Operating grants and subsidies	(157 226 860)	(153 684 360)	(3 542 500)
Capital grants and subsidies	(160 792 718)	(58 257 640)	(102 535 078)
Fines	(601 500)	(185 948)	(415 552)
Interest earned - external investments	(3 200 000)	(2 774 974)	(425 026.00)
Interest earned - outstanding debtors	(2 300 000)	(6 256 599)	(3 956 599)
Rent facilities and equipment	(650 000)	(557 171)	(92 829.00)
Other income	(41 946 000)	(12 571 375)	(29 374 625)
			<b>(116 834 371)</b>

## Irregular expenditure

47. During 2013, I reported that the municipality procured goods and services amounting to R49 703 321 in contravention of the municipality's procurement policy requirements. Due to a lack of appropriate proper procurement system at the municipality, I was unable to confirm whether the disclosure regarding the irregular expenditure in the financial statements was complete. My audit opinion on the financial statements for the period ended 30 June 2013 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.
48. The municipality could not provide tender files and other supporting documents for contracts awarded amounting to R25 182 284 (2013: 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 44 to the financial statements.
49. I identified differences to the amount of R21 568 518 between the amount that was disclosed as irregular expenditure per the 2013 closing balance and the 2014 opening balance. The municipality could not provide an explanation or supporting documentation for the differences noted. Consequently I was unable to determine whether any adjustments to the irregular expenditure stated at R7 607 725 in note 44 to the financial statements were necessary.

## Unauthorised expenditure

50. The municipality did not include full particulars of unauthorised expenditure in the notes to the financial statements. The municipality incurred unauthorised expenditure amounting to R9 611 733 00 as a result of overspending of the total amount appropriated for votes in the approved budget, resulting in unauthorised expenditure being understated by the same amount. With reference to note 42 to the financial



statements R77 687 230 was disclosed as unauthorised expenditure, resulting in unauthorised expenditure being cumulatively understated by R9 611 733 00

## The difference between the annual financial statements and the trial balance

51. The municipality did not reconcile differences between the financial statements and the underlying accounting records. The impact on the account balances and classes of transactions 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. Consequently, I was unable to determine whether any adjustments to these elements were necessary.

Description	Trial Balance	AFS	Variance
Property rates	-70 169 502	70 009 714.00	-159 787.60
Interest received	-6 256 599	5 383 223.00	-873 376
Personnel	81 927 510	86 412 950.00	-4 485 439
Remuneration of councillors	17 715 494	-17 789 181.00	-73 686
Depreciation and amortisation	59 853 610	-59 775 155.00	78 455
Finance costs	20 051 075	16 288 622	3 762 453
Repairs and maintenance	6 726 494	-6 796 939.00	-70 444
Grants and subsidies paid	51 214.39	-3 698 699.00	-3 647 484
General Expenses	44 619 774	42 141 871	2 477 903
Fair Value adjustments investment properties	0	4 140 600.00	4 140 600.00
Receivables from non-exchange transactions	4 715 996	3 107 301.00	1 608 695
Cash and cash equivalents	106 383 074	108 638 895.00	-2 255 820
Investment property	121 631 579	120 255 400.00	1 376 179
Property, plant and equipment	1 362 008 275	1 449 089 504.00	-87 081 228
Intangible Assets	0	64 062.00	64 062.00
Other financial liabilities	831 120	1 084 555.00	-253 434
Payables from exchange transactions	34 456 449	38 895 325.00	-4 438 875.65
VAT payable	1 590 090	2 852 918.00	-1 262 827
Consumer deposits	1 271 767	1 192 319.00	79 448
Unspent conditional grants and receipts	9 173	3 515 567.00	-3 506 393.25
Other interest bearing liabilities	14 226 513	14 215 385.00	11 128
Provisions	6 002 417	6 093 325.00	-90 907

## **Aggregation of immaterial uncorrected misstatements**

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

- Provision for performance bonus reflected at R678 536 was overstated by R123 940 ( 2013: R1 710 660)
- VAT payable stated reflected at R2 794 241 understated by R2 454 779 (2013 : R1 145 092)
- Expenditure: subsistence reflected at R5 315 461 overstated by R62 781
- The grants and subsidies reflected at R3 698 699 overstated by R402 578
- Provision for leave pay reflected at R0 is understated by R10 680 998 (2013: R957 368)
- Depreciation reflected at R59 775 155 is understated by R78 456 (2013 : R1 302 717)
- Revenue from licensing and permits reflected at R6 413 748 is overstated by R939 223.
- Fruitless and wasteful expenditure reflected at R318 123 is overstated by R88 431 (2013 : R77 643)
- Commission revenue on water transactions reflected at R4 840 807 is overstated by R627 832 (2013: R75 567)
- Payable from exchange transactions reflected at R38 895 325 is overstated by R430 595.

As a result, I was unable to determine whether any adjustment to these items was necessary.

## **Disclaimer of opinion**

53. 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**

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

## **Significant uncertainties**

55. With reference to note 38.1 to the financial statements, the municipality is the defendant in various lawsuits. The ultimate outcome of the matters cannot presently be determined and no provision for any liability that may result has been made in the financial

statements.

### **Irregular expenditure**

56. As disclosed in note 44 to the financial statements, the municipality incurred irregular expenditure which is under investigation and has not been disclosed in the financial statements. The full extent of the irregular expenditure cannot be presently determined pending outcome of the investigations

### **Material underspending of the conditional grant**

57. As disclosed in the note 23 the municipality has materially underspent the budget on economic and land development to the amount of R3 515 567. As a consequence, the municipality has not achieved its objectives of the above mentioned development priority.

### **Additional matters**

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

### **Unaudited disclosure notes**

59. 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**

60. 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**

61. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected programmes presented in the annual performance report, non-compliance with legislation as well as 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**

62. 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 the municipality for the year ended 30

June 2014:

- Community services on pages x to x
  - Technical services on pages x to x
  - Economic and land development on pages x to x
63. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
64. 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 programmes. 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).
65. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
66. The material findings in respect of the selected programmes are as follows:

## **Community services**

### **Reliability of reported performance information**

67. 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. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to a lack of frequent review of the validity of reported achievements against source documentation.

## **Technical services**

### **Reliability of reported performance information**

68. 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. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to a lack of frequent review of the validity of reported achievements against source documentation.

## **Economic and land development**

### **Reliability of reported performance information**

69. 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. Significantly important

targets were not reliable when compared to the source information or evidence provided. This was due to a lack of frequent review of the validity of reported achievements against source documentation.

## **Additional matters**

70. I draw attention to the following matter:

## **Achievement of planned targets**

71. Refer to the annual performance report on pages xx to xx 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 usefulness and reliability of the reported performance information for the selected development priorities reported in paragraphs xx to xx of this report.

## **Compliance with laws and regulations**

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

## **Budgets**

73. 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

## **Annual financial statements, performance and annual reports**

74. 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 in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.

75. The 2012-13 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.

76. A written explanation was not submitted to council setting out the reasons for the delay in the tabling of the 2012-13 annual report to the council, as required by section 127(3) and 133(1)(a) of the MFMA.

77. An oversight report, containing comments on the annual report, was not adopted by council within two months from the date on which the 2012-13 annual report was tabled, as required by section 129(1) of the MFMA.

78. The performance management system and related controls was inadequate as it did not describe and represent the processes of performance review and how it is conducted, organised and managed, as required by sections 38 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) and regulation 7 of the *Municipal planning and performance*

*management regulations.*

## **Strategic planning and performance management**

79. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance review and how it is conducted, organised and managed, as required by sections 38 of the MSA and regulation 7 of the *Municipal planning and performance management regulations*.

## **Expenditure management**

80. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
81. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred and accounted for creditors, as required by section 65(2)(b) of the MFMA.
82. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

## **Procurement and contract management**

83. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive, as supporting documents could not be located.
84. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) and (c).
85. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by 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).
86. Bids were not always evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality as required by SCM regulation 28(2).
87. Contracts and quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) (PPPFA).
88. Awards were made to providers who are in the service of the municipality in contravention of section 112(j) of the MFMA and SCM regulation 44

## **Revenue management**

89. 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.

90. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

### **Human resource management and compensation**

91. An acting CFO was appointed for a period of more than 3 months, in contravention of section 56(1) (c) of the MSA.
92. An acting MM was appointed for a period of more than 3 months, in contravention of section 54A (2A) of the MSA.

### **Assets and liabilities management**

93. 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.
94. 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.

### **Consequence management**

95. Unauthorised, irregular, fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.
96. Authorisation of unauthorised expenditure was not done through an adjustment budget, as required by section 32(2)(a)(i) of the MFMA.
97. The accounting officer did not always report to the South African Police Service cases of alleged irregular expenditure that constituted a criminal offence, as required by section 32(6) of the MFMA.

### **Conditional grant**

98. The municipality did not evaluate its performance in respect of functions funded by the Municipal Systems Improvement Grant allocation, as required by section 12(5) of the DoRA.
99. Municipal Systems Improvement Grant funds were retained or rollover to the next financial year without seeking the approval of the National Treasury, as required by sections 21(1) of the DoRA.
100. The Municipal Systems Improvement Grant allocation was not spent in accordance with the applicable grant framework, in contravention of section 16(1) of the DoRA.
101. Local Government Financial Management Grant funds were retained or rolled-over to the next financial year without seeking the approval of the National Treasury, as required by sections 21(1) of the DoRA.

## **Audit committee**

102. 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.
103. 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 municipality, its efficiency and effectiveness and its overall level of compliance with legislation, as required by section 166(2)(b) of the MFMA.
104. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.

## **Internal controls**

105. 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 disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

## **Leadership**

106. Oversight responsibility regarding financial and performance reporting and compliance and related internal controls was not exercised.
107. The accounting officer did not implement HR management effectively to ensure that adequate and sufficiently skilled resources are in place.
108. 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**

109. The financial statements and other information to be included in the annual report were not reviewed for accuracy and completeness by the accounting officer.
110. Controls over daily and monthly processing and reconciling of transactions were not implemented by the accounting officer.
111. Compliance with laws and regulations was not reviewed and monitored by the accounting officer.
112. There was no proper record keeping supporting the financial statements and the annual performance report, consequently requested information was not submitted.
113. The significant number of adjustments to the PPE balances and qualification paragraphs would be attributable to capacity constraints.



## Governance

114. The audit committee did not review the financial statements and annual performance report for adequacy, reliability and accuracy prior to submission for audit.
115. The risk assessment procedures implemented by the municipality were not adequate, as all risks affecting the municipality were not identified.

## Other reports

## Investigations

116. There are an investigations being conducted at the municipality which are at different stages and have not been concluded at the reporting date.

*Auditor General*  
Polokwane

28 November 2014



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*