

Auditor's report

Greater Tzaneen Municipality and its municipal entity

30 June 2015

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

Report on the consolidated and separate financial statements

Introduction

1. I have audited the consolidated and separate financial statements of the Greater Tzaneen Municipality and its municipal entity set out on pages ... to ..., which comprise the consolidated and separate statement of financial position as at 30 June 2015, the consolidated and separate 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 consolidated and separate financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP), 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, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of consolidated and separate 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 consolidated and separate 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 consolidated and separate financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate 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 consolidated and separate 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 consolidated and separate 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

Revenue

6. The municipality did not recognise the full amount relating to traffic fines issued during the year under review in accordance with paragraph 9 of IGRAP 1: *Applying the probability test on initial recognition of non-exchange revenue*. Furthermore, I was unable to obtain sufficient appropriate audit evidence for traffic fines issued, as there were no internal controls for the distribution of traffic fine books to officials. I could not confirm whether all traffic fines had been recorded by alternative means. Consequently, I was unable to determine whether any adjustment to revenue from traffic fines stated at R8 million in the financial statements was necessary.

Qualified opinion

7. In my opinion, except for the effect of the matter described in the basis for qualified opinion paragraph, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Greater Tzaneen Municipality and its municipal entity as at 30 June 2015 and their financial performance and cash flows for the year then ended, in accordance with SA standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

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

Significant uncertainties

9. With reference to note 40 to the financial statements, the municipality is the defendant in a claim. 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.

Restatement of corresponding figures

10. As disclosed in note 61 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of an error discovered during 2015 in the financial statements of the municipality at, and for the year ended, 30 June 2015.

Material losses

11. As disclosed in note 50 to the financial statements, material losses of 68 436 891 units of electricity (17.83%) and (2014: 75 262 387 units 20.39%) were incurred as a result of electricity distribution losses

Material underspending of the conditional grant

12. As disclosed in note 18, the municipality has materially underspent the budget on conditional grant to the amount of R60 435 514.

Irregular expenditure

13. As disclosed in note 46 to the financial statements, irregular expenditure to the amount of R62 445 004 was incurred in the current year as the municipality procured goods and services without following supply chain management regulations.

Fruitless and wasteful expenditure

14. As disclosed in note 45 to the financial statements, fruitless and wasteful expenditure to the amount of R1 431 856 was incurred in the current year as the municipality incurred expenditure that could have been prevented if due care was taken. This is due to interest on late settlement of accounts

Unauthorized expenditure

15. As disclosed in note 44 to the financial statements, unauthorised expenditure to the amount of R25 387 498 was incurred in the current year as the municipality over spend on their approved budget

Additional matter

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

Unaudited supplementary schedules

17. 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

18. 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 objectives 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

19. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development objectives presented in the annual performance report of the municipality for the year ended 30 June 2015:

- Development objective 2: Improve access to sustainable and affordable services on pages xx to xx
 - Development objective 3: Increase financial viability on pages xx to
20. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
21. 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 objectives. 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).
22. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
23. The material findings in respect of the selected development objectives are as follows:

Reliability of reported performance information

Development objective 2: Improve access to sustainable and affordable services

24. The FMPPI requires auditee 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. Adequate and reliable corroborating evidence could not be provided for 20% of the targets consequently I was unable to assess the reliability of the reported performance information. This was due to limitations placed on the scope of my work by the auditee.

Development objective 3: Increase financial viability

25. The FMPPI requires auditee 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. Adequate and reliable corroborating evidence could not be provided for 20% of the targets consequently I was unable to assess the reliability of the reported performance information. This was due to limitations placed on the scope of my work by the auditee.
26. I did not identify material findings on the usefulness of the reported performance information for the selected development objectives.

Additional matters

27. I draw attention to the following matters:

Achievement of planned targets

28. Refer to the annual performance report on page(s) x to x and 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 finding on the reliability of the reported performance information for the selected programme reported in paragraph xx of this report.

Unaudited supplementary information

29. The supplementary information set out on pages XX to XX does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

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:

Financial statements, performance and annual reports

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 cash flow statement, commitments, receivables, revenue, contingent liabilities and VAT payables identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving a qualified audit opinion.
32. The 2013-14 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.
33. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance monitoring, measurement, review, reporting 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*.

Audit committee

34. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.
35. The audit committee did not review all the quarterly internal audit reports on performance measurement, as required by *Municipal planning and performance management regulation 14(4)(a)(i)*.
36. The audit committee did not review the municipality's performance management system and make recommendations to the council, as required by *Municipal planning and performance management regulation 14(4)(a)(ii)*.

Procurement and contract management

37. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
38. Awards were made to providers who are in the service of other state institutions are in the service of other state institutions, in contravention of MFMA 112(j) and *Supply Chain Management (SCM)* regulations 44.
39. Persons in the service of the municipality who had a business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM regulation 46(2)(e)

Human resource management and compensation

40. An acting municipal manager was appointed for a period of more than three month in contravention of section 54A (2A) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Expenditure management

41. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
42. 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.
43. VAT returns was not submitted in terms of section 28(1)(a) of the Value Added Tax Act, 1991 (Act No. 89 of 1991) (VAT Act).

Consequence management

44. The condonation of irregular expenditure was not approved by the appropriate relevant authority, as required by sections 1 and 170 of the MFMA.
45. Unauthorised, irregular and fruitless and wasteful expenditure was not always recovered from the liable person, as required by section 32(2) and 102(1), respectively of the MFMA.

Internal control

46. 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 opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

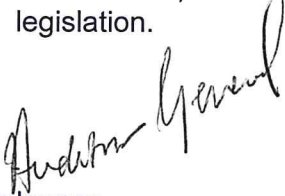
47. The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls. Staff members were not held accountable for repeat findings
48. Effective HR management was not implemented to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored
49. The accounting officer did not monitor the implementation of action plans to address internal control deficiencies

Financial and performance management

50. Adjustments were made to the annual financial statements due to a lack of financial monitoring and review.
51. The accounting officer did not monitor controls to prevent late payments to suppliers.
52. Lack of consequence management resulted in unauthorised, irregular expenditure and fruitless and wasteful expenditure

Governance

53. The audit committee did not review the internal audit reports as a results they did not promotes accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation.



Polokwane

09 December 2015



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

