



AUDITOR - GENERAL  
SOUTH AFRICA

The accounting officer  
Greater Tzaneen Municipality  
PO BOX 24  
Tzaneen  
0850

Date 30 November 2012

Reference: 02504REG11/12

Dear Sir/Madam

**Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Greater Tzaneen Municipality for the year ended 30 June 2012**

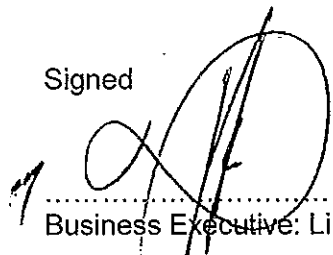
1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA)
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section [121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
  - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
  - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
6. Please notify the undersigned Business Executive well in advance of the date on which the annual report containing this audit report will be tabled.

7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed

A handwritten signature in black ink, appearing to be 'D. Strydom', written over a dotted line. The signature is stylized and somewhat cursive.

Business Executive: Limpopo

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

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I was engaged to audit the financial statements of the Greater Tzaneen Municipality, which comprise the statement of financial position as at 30 June 2012, the statements of financial performance, changes in net assets and cash flows for the year then ended, a summary of significant accounting policies and other explanatory information as set out on pages xx to xx.

### 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), the Division of Revenue Act, 2011 (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. The municipality could not provide supporting documentation for property, plant and equipment additions amounting to R44 928 551. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that property, plant and equipment were valued correctly. Consequently, I could not obtain sufficient appropriate audit evidence to satisfy myself as to the valuation, existence and completeness of property, plant and equipment amounting to R1 561 443 008 as disclosed in note 11 to the financial statements.
5. The municipality did not review the useful lives of property, plant and equipment at each reporting date in accordance with the SA Standards of GRAP 17, *Property, plant and equipment*. The municipality's records did not permit the application of alternative audit procedures. Consequently, the impact on the carrying value of property, plant and equipment and the corresponding effect on accumulated surplus in terms of SA Standards of GRAP 3, *Accounting policies, change in accounting estimates and errors* as disclosed in the statement of financial position could not be determined.

6. The municipality did not account for land from the valuation roll amounting to R7 129 000 in property, plant and equipment. Due to the inadequacy of the description of land in the records of the municipality, I could not determine the completeness of land recorded. The municipality's records did not permit the application of alternative audit procedures regarding the completeness of land amounting to R142 015 771 as disclosed in note 11 to the financial statement.
7. Property, plant and equipment as disclosed in note 11 to the annual financial statements include an unexplained difference of R18 531 539 between the values in the valuation roll and the fixed asset register. The municipality did not reconcile the differences. Consequently, property, plant and equipment is misstated by R18 531 539. I could not determine the effect on the other account balances or class of transactions contained in the financial statements.
8. Property, plant and equipment of R1 561 446 185 as disclosed in note 11 to the annual financial statements, does not agree to the balance of R2 256 057 792 per the general ledger. Furthermore, property, plant and equipment as stated in the financial statements does not agree to the balance of R2 240 312 977 as per fixed assets register. The municipality did not reconcile these differences. Consequently, property, plant and equipment is understated by R15 744 814 and R84 335 586 respectively. I could not determine the effect on the other account balances or class of transactions contained in the financial statements.

#### **Investment property**

9. Stands for sale amounting to R11 272 000 was incorrectly classified as investment property resulting in the overstatement of investment property and understatement of inventory by the same amount. The municipality did not implement an adequate inventory recording management system for the year under review. I was unable to perform alternative procedures and consequently, I could not determine whether investment property amounting to R208 608 792 (2011: R305 491 622) disclosed in the annual financial statements is complete and correctly valued.

#### **Accumulated surplus**

10. The municipality restated the closing balance of accumulated surplus for the 2010-11 financial year. However, no supporting evidence could be provided for the journals passed during the 2011-12 financial year amounting to R38 998 035. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all corrections were properly recorded. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the valuation and existence pertaining to the corrections.
11. Accumulated surplus as disclosed in the annual financial statements include an unexplained difference in the comparative amount between the opening balance as per general ledger and the current years comparatives amounting to R145 482 635. The municipality did not reconcile the differences. Consequently, accumulated surplus is misstated by R145 482 635.

#### **Bad debts**

12. Bad debts amounting to R42 960 556 were written off directly against accumulated surplus. Consequently, the deficit for the year has been understated by R42 960 556 and this has impacted on the statement of financial performance in that the net deficit being understated and the corresponding effect on the receivables.

### **Inventory**

13. The municipality could not provide supporting documents for inventory as disclosed in the note 14 to the annual financial statements. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that inventory were valued correctly. Consequently, I could not obtain sufficient appropriate audit evidence to satisfy myself as to the valuation, existence and completeness of inventory of R10 977 924 (2011: R10 729 924) as disclosed in note 14 of the annual financial statements.

### **Receivables and other receivables**

14. The municipality could not provide supporting documents for receivables and other receivables as disclosed in the note 15 and 17 respectively to the annual financial statements. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that receivables and other receivables were valued correctly. Consequently, I could not obtain sufficient appropriate audit evidence to satisfy myself as to the valuation, existence and completeness of receivables and other receivables of R159 150 416 (2011; R163 181 889)

### **Value Added Tax (VAT)**

15. The municipality could not provide supporting documents for VAT as disclosed in the note 7 to the annual financial statements. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that VAT was valued correctly. Consequently, I could not obtain sufficient appropriate audit evidence to satisfy myself as to the valuation, existence and completeness of VAT of R25 738 089 (2011: R19 236 926)

### **Employee costs**

16. The municipality could not provide supporting documents for employee costs amounting to R16 684 070 as stated in note 24 to the financial statements. I was unable to confirm the employee costs by alternative means. Consequently, I could not obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence and accuracy of employee costs of R97 737 149 (2011: R91 435 963) as disclosed in the note 24 to the annual financial statements..

### **Revenue**

17. The municipality could not provide supporting documents for other income stated at R7 166 071 in the note 23 to the annual financial statements. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all other income was valued correctly. Consequently, I could not obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence and accuracy of other income of R7 166 071.
18. The billing system does not agree to the financial statements and there is an unexplained difference of R8 452 607. Consequently, income from agency services as disclosed in the statement of financial performance are overstated by R8 452 607.

### **Borrowings**

19. The municipality could not provide supporting documents for borrowings as disclosed in note 1 to the annual financial statements. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that borrowings were valued correctly. Consequently I was unable to determine whether any adjustment relating to borrowings stated at R142 330 562 in the financial statements was necessary.

### **Finance lease liabilities**

20. The municipality could not provide supporting documents for finance lease liabilities as disclosed in the note 2 to the annual financial statements. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that finance lease liabilities were valued correctly. Consequently I was unable to determine whether any adjustment relating to finance lease liabilities stated at R7 550 403 in the financial statements was necessary.

### **Commitments**

21. The municipality has disclosed the capital budget for the 2012-13 financial year as a commitment for which they were no contractual obligations as at 30 June 2012. Consequently, the amount for commitments as disclosed in note 40 to the annual financial statements was overstated by R118 654 828. Furthermore, contractual commitment amounting to R17 714 482 was not disclosed in note 40 to the annual financial statements. Consequently, the amount of commitments as disclosed in note 40 to the annual financial statement was understated by R17 714 482.

### **Irregular expenditure**

22. No system was in place for the identification and recognition of irregular expenditure and there were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all irregular expenditure was properly recorded. Payments amounting to R90 591 440 were made in contravention of the supply chain management regulations. The amount was not included in irregular expenditure, disclosed in note 37 to the financial statements. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of irregular expenditure as disclosed in note 37 to the financial statements amounting to R0.

### **Unauthorised expenditure**

23. The municipality exceeded its approved budget by R91 011 607. This amount was not disclosed as unauthorised expenditure in the financial statements. Consequently, unauthorised expenditure has been understated by R91 011 607 in the financial statements.

### **Fruitless and wasteful expenditure**

24. I identified a total amount of R169 212 being fruitless and wasteful expenditure incurred as a result of payment of interest due to late payment of VAT. These amounts were not identified and recorded in the accounting records of the municipality. They were also not disclosed in the annual financial statements.

### **Disclaimer of opinion**

25. 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 matter**

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

### **Significant uncertainty**

27. With reference to note 42 to the financial statements, the municipality is the defendant in various lawsuits amounting to R29 308 446. 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**

28. As disclosed in note 32 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of prior period errors discovered during 2012 in the financial statements of the municipality at, and for the year ended 30 June 2011

### **Under-spending of conditional grants**

29. As disclosed in note 8 of the annual financial statements, the municipality has materially underspent the budget amounting to R39 919 997. As a consequence, the municipality has not achieved its objectives of service delivery

### **Additional matter**

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

### **Unaudited supplementary schedules**

31. The supplementary information set out on pages X to X 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

### **Withdrawal from the audit engagement**

32. Due to the limitation imposed on the scope of the audit by the management, I have disclaimed my opinion on the financial statements. But for the legislated requirement to perform the audit of the municipality, I would have withdrawn from the engagement in terms of the ISA's.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

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

The material findings are as follows:

## **Usefulness of information**

### **Presentation**

#### **Measures taken to improve performance**

37. Improvement measures in the annual performance report for a total of 87% of the planned targets not achieved were not disclosed as required by section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA). This was due to a lack of documented and approved internal policies and procedures to address reporting processes and events pertaining to performance management and reporting.

### **Consistency**

#### **Reported objectives, indicators and targets not consistent with planned objectives, indicators and targets**

38. The MSA, section 41(c) requires that the integrated development plan should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported indicators and related targets are not consistent with the indicators and related targets as per the approved integrated development plan. This is due to the lack of adequate review and monitoring of integrated development plan process by management.

### **Measurability**

#### **Indicators not verifiable**

39. The National Treasury *FMPP* requires that it must be possible to validate the processes and systems that produce the indicator. A total of 64% of the indicators were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the lack of key controls in the relevant systems of collection of actual performance information



#### **Performance targets not specific**

40. The National Treasury *FMPPI* requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 59% of the targets were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not receive the necessary training to enable application of the principles

#### **Performance targets not measurable**

41. The National Treasury *FMPPI* requires that performance targets be measurable. The required performance could not be measured for a total of 75% of the targets. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not receive the necessary training to enable application of the principles

#### **Reliability of information**

##### **Validity**

42. The National Treasury *FMPPI* requires that processes and systems which produce the indicator should be verifiable. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the validity of the actual reported performance relevant to 88% of the basic service delivery key performance area. This was due to limitations placed on the scope of my work due to the absence of information systems and the institution's records not permitting the application of alternative audit procedures.

##### **Accuracy**

43. The National Treasury *FMPPI* requires that the indicator be accurate enough for its intended use and respond to changes in the level of performance. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the accuracy of the actual reported performance relevant to 88% of the basic service delivery key performance area. This was due to limitations placed on the scope of my work by the absence of information systems and the institution's records not permitting the application of alternative audit procedures.

##### **Completeness**

44. The *FMPPI* requires that documentation addressing the systems and processes for identifying, collecting, collating, verifying and storing information be properly maintained. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the completeness of the actual reported performance relevant to 87% of development objectives.

#### **Compliance with laws and regulations**

45. 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:

### **Strategic planning and performance management**

46. The municipality did not establish a performance management system that was in line with the priorities, objectives, indicators and targets contained in its integrated development plan, as required by section 38(a) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).
47. The municipality did not
  - set appropriate key performance indicators as a yardstick for measuring performance, including outcomes and impact, with regard to the municipality's development priorities and objectives set out in its integrated development plan.
  - set measurable targets with regard to each development priority and objectives
  - monitor performance with regard to each of those development priorities and objectives and against the key performance indicators and targets set.
  - take steps to improve performance with regard to those developments priorities and objectives where performance targets are not met as required by section 41 of the MSA.

### **Budgets**

48. 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 report**

49. The annual report for the year under review does not include the accounting officer's assessment of the performance against the measurable performance objectives, as required by section 121(3)(f) of the MFMA.

### **Audit committees**

50. 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 the MFMA and DoRA, as required by section 166(2)(b) of the MFMA.

### **Procurement and contract management**

51. Goods and services with a transaction value of below R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) and (c).
52. Bid adjudication was not always done by committees which were composed in accordance with SCM regulation 29(2).
53. The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) (PPPFA) and SCM regulation 28(1)(a).
54. Contracts and quotations were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.
55. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).