

# Report of the auditor-general to 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 2016, the consolidated and separate statement of financial performance, statement of changes in net assets and statement of cash flows 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 Standard of Generally Recognised Accounting Practice (SA standard of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, (Act No.56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2015 (Act No.1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of 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 entity'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 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 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 audit opinion.

## **Opinion**

6. In my opinion, 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 2016 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**

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

### **Significant uncertainties**

8. With reference to note 39 to the financial statements, the municipality is the defendant in a claim, which the municipality is opposing. 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**

9. As disclosed in note 60 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of an error discovered during 2016 in the financial statements of the municipality at, and for the year ended, 30 June 2015.

### **Material losses**

10. As disclosed in note 50 to the financial statements, there was material loss of 75 794 203 units of electricity amounting to R59 812 445 (2015: 68 436 891 units R54 726 095).

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

11. As disclosed in note 17, the municipality has materially underspent its budget on conditional grants to the amount of R19 434 127.

### **Irregular expenditure**

12. As disclosed in note 45 to the financial statements, irregular expenditure to the amount of R21 008 916 was incurred due to the procurement of goods and services without following supply chain management regulations.

## Fruitless and wasteful expenditure

13. As disclosed in note 44 to the financial statements, fruitless and wasteful expenditure to the amount of R955 575 as incurred due to interest paid on overdue accounts, which could have been prevented if due care was taken.

## Unauthorized expenditure

14. As disclosed in note 43 to the financial statements, unauthorised expenditure to the amount of R115 005 414 was incurred in the current year due to the municipality overspending on their approved budget

## Additional matter

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

## Unaudited supplementary schedules

16. 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 schedule(s) and, accordingly, I do not express an opinion thereon

## Report on other legal and regulatory requirements

17. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected 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

18. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2016:
  - Strategic objective 1: Optimise and sustain infrastructure investments and services on pages x to x
  - Strategic objective 2: Increased Investment in GTM Economy on pages x to x
  - Strategic objective 3: Improve access to sustainable and affordable infrastructure on pages x to x

19. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned 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).
20. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
21. The material findings in respect of the selected objectives are as follows:

## **Objective 1: Optimise and sustain infrastructure investments and services**

### Usefulness of reported performance information

#### Reported targets not consistent with planned targets

22. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires the annual performance to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 65% important targets were not consistent with those in the approved service delivery agreement.

### Reliability of reported performance information

23. I did not identify any material findings on the reliability of the reported performance information for development objective 1: optimise and sustain infrastructure investments and services.

## **Objective 2: Increased Investment in GTM Economy**

### Usefulness of reported performance information

24. I did not identify any material findings on the usefulness of the reported performance information for development objective 2: increased investment in GTM economy.

### Reliability of reported performance information

25. The FMPPi requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported achievements against planned targets of 25% indicators were not reliable when compared to the evidence provided.

## **Objective 3: Improve access to sustainable and affordable infrastructure**

### Usefulness of reported performance information

#### Reported targets not consistent with planned targets

26. Section 41(c) of the MSA requires the annual performance to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 78% important targets were not consistent with those in the approved service delivery agreement.

#### Performance targets not specific, measurable and indicators not well defined

27. The FMPPI requires that performance targets should be specific in clearly identifying the nature and required level of performance and measurable. A total of 39 % important targets were not specific and measurable.
28. The FMPPI requires that performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use. A total of 67% important indicators were not well defined.

### Reliability of reported performance information

29. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported achievements against planned targets of 20% indicators were not reliable when compared to the evidence provided.

## **Additional matters**

30. I draw attention to the following matter(s):

### Achievement of planned targets

31. Refer to the annual performance report on page(s) x to x; 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 findings on the usefulness and reliability of the reported performance information in paragraph(s) x; x; x of this report.

### Adjustment of material misstatements

32. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of optimise and sustain infrastructure investments and services. As management subsequently corrected only some of the misstatements, I identified material findings on the usefulness and reliability of the

reported performance information.

## Unaudited supplementary information

33. The supplementary information set out on pages x to x does not form part of the annual performance report and is presented as additional information. I have not audited these schedule(s) and, accordingly, I do not report on them.

## **Compliance with legislation**

34. 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:

## Strategic planning and performance management

35. 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*.

## Financial statements, performance and annual reports

36. 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 property, plant and equipment, cash flow statements, VAT payables, commitments and irregular expenditure items identified by the auditors in the submitted financial statements, were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

## Procurement and contract management

37. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by *Supply Chain Management Regulation (SCM regulation) 19(a)*.
38. 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.

## Expenditure management

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

## Consequence management

40. Losses resulting from unauthorised, irregular as well as fruitless expenditure were not always recovered from the liable persons, as required by section 32(2) of the MFMA.

## Asset management

41. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

## Internal control

42. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

## Leadership

43. 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
44. Effective human resource management was not implemented to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored
45. The accounting officer did not monitor the implementation of action plans to address internal control deficiencies

## Financial and performance management

46. The annual financial statements and annual performance report contained numerous misstatements mainly due to a lack of monitoring and review.
47. The accounting officer did not review and monitor compliance with applicable legislation
48. Lack of consequence management resulted in unauthorised, irregular as well as fruitless and wasteful expenditure

## Governance

49. Those charged with governance did not provide adequate oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations

## Other reports

### Investigations

50. An independent consulting firm performed an investigation at the request of the municipality, which covered the period 1 July 2013 to 30 June 2015. The investigation was initiated based on an allegation of possible irregularities regarding municipality's SCM processes. The investigation was concluded on 1 June 2016 resulting in the suspension of one senior employee. These proceedings are currently still in progress

*Auditor General*  
Polokwane

12 December 2016



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*