

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

REPORT ON THE SEPARATE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of Greater Tzaneen Municipality, which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit

Basis for Qualified opinion

Property, plant and equipment / roads infrastructure

6. Section 84(1)(f) of the Municipal Structures Act states that the district municipality has the powers and function with regards to municipal roads which form an integral part of a road transport system for the area of the district municipality as a whole. I was unable to obtain sufficient appropriate audit evidence that management has properly accounted for all roads as the municipality did not have systems and procedures in place to assess the

rights and ownership thereof. I was unable to confirm the roads infrastructure by alternative means. Consequently, I was unable to determine whether any adjustment to property, plant and equipment / roads infrastructure stated at R 406 884 876 (2012:R 507 740 160) in the financial statements was necessary.

7. The municipality reviewed the useful life of property, plant and equipment during the year which resulted in change in accounting estimates. The change in estimates was not disclosed in the annual financial statements as required by Standard of Generally Recognised Accounting Practice, GRAP 3, accounting policies, Change in accounting estimates and errors. Consequently, Not all disclosures required by Standard of Generally Recognised Accounting Practice, GRAP 3 were made by municipality

Investment property

8. The municipality did not determine the fair value of investment property accounted for under the fair value model in accordance with Standard of Generally Recognised Accounting Practice, GRAP 16, Investment Properties. Investment property with a carrying amount of R188 943 792 as disclosed in note nine (9) of the financial statements are not measured at fair value. I was not able to determine the correct amount of investment property as it was impracticable to do so.

Expenditure

9. The municipality has incorrectly disclosed impairment of assets as a negative amount of R 21 560 018 in the statement of financial performance. I was unable to confirm the accuracy of the amount of impairment of assets by alternative means. Consequently, I was unable to determine whether adjustments to the financial statement item are necessary and include the value of the item in the financial statements.

Budget information

10. The municipality did not adhere to the requirements of Standard of Generally Recognised Accounting Practice, GRAP 24, Presentation of Budget Information in Financial Statements, as the municipality did not present a comparison of the budget amount for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as disclosure in the financial statements. GRAP 24 is effective from 2012-13 financial year in terms of directive 5 issued by accounting standard board.

Irregular expenditure

11. Council condoned irregular expenditure amounting to R114 384 289 without conducting an investigation to determine recoverability of the expenditure, as required by section 32(2) of the Municipal Finance Management Act. Consequently, irregular expenditure amounting to R9 968 230 as disclosed in note 41 to the financial statements is understated by R114 384 289.

Aggregation of Immaterial Uncorrected Misstatements

12. The financial statements as a whole are materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following elements making up the statement of financial performance

- Depreciation reflected as R105 229 808 is understated by R4 677 992
- Movable fixed assets of R1 630 333 could not be physically verified
- Income from agency services reflected as R14 598 636 is overstated by R5 156 025
- Fines reflected as R5 864 717 is overstated by R 3 155 644
- Other income reflected as R9 396 590 is overstated by R2 167 180
- Property rates reflected as R61 059 598 is overstated by R5 727 795

The deficit for the year reflected as R10 786 051 is understated by the cumulative effect of these uncorrected misstatements.

Qualified Opinion

13. In my opinion, except for the possible effects of the matter described in the Basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Tzaneen Municipality as at 30 June 2013 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

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

Significant Uncertainties

14. With reference to note 36 to the financial statements, municipality is the defendant in various lawsuits and pending legal cases from individuals and companies and the ultimate outcome of the matters cannot presently be determined.

Unauthorized expenditure

15. As disclosed in note 39 to the financial statements, unauthorized expenditure to the amount of R59 533 493 was incurred, due to overspending of the budget of the municipality

Additional matter(s)

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 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

19. I performed procedures to obtain evidence about the usefulness and reliability of the information in the [name of annual performance report] as set out on pages ... to ... of the annual report.
20. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned 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.

21. The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
22. The material findings are as follows:

Usefulness of information

Measurability

23. The National Treasury Framework for managing programme performance information (FMPPPI) requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 47% 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 FMPPPI but did not receive the necessary training to enable application of the principles.
24. The National Treasury Framework for managing programme performance information (FMPPPI) requires that performance targets be measurable. The required performance could not be measured for a total of 56% of the targets. This was due to the fact that management was aware of the requirements of the FMPPPI but did not receive the necessary training to enable application of the principles.
25. The National Treasury Framework for managing programme performance information (FMPPPI) requires that it must be possible to validate the processes and systems that produce the indicator. A total of 42% 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/collation/ verification/ storage of actual performance information.

Reliability of information

26. The National Treasury Framework for managing programme performance information (FMPPI) requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.

I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to Improve access to sustainable and affordable services.

This was due to the fact that the institution could not provide sufficient appropriate evidence in support of the information presented with respect to the development priority.

Compliance with laws and regulations

27. 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

28. The performance management system of the municipality did not clarify the roles and responsibilities of each role-player in the functioning of the system as required by the Municipal planning and performance management regulation 7(2)(c).
29. Revisions to the service delivery and budget implementation plan were not approved by the council after the approval of the adjustments budget, as required by section 54(1)(c) of the Municipal Finance Management Act.
30. The municipality did not have and maintain effective, efficient and transparent systems of financial and risk management and internal controls as required by section 62(1)(c)(i) of the Municipal Finance Management Act.

Annual 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 Municipal Finance Management Act. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected, which resulted in the financial statements receiving a qualified audit opinion.
32. Consolidated financial statements were not submitted for auditing, within three months after the end of the financial year, as required by section 126(1)(b) of the Municipal Finance Management Act.

Budget

33. The municipality incurred expenditure that was not budgeted for and incurred expenditure in excess of the limits of the amounts provided for in the votes in the approved budget, in contravention of section 15 of the MFMA.

Internal audit

34. The internal audit unit did not function as required by section 165(2) of the Municipal Finance Management Act; in that the internal audit plan and the internal audit charter were not approved by the audit committee for the financial year under review.
35. The internal audit did not audit the results of performance measurements, as required by section 45(1)(a) of the Municipal Systems Act and Municipal planning and performance management regulation 14(1)(a).
36. The internal audit unit did not assess the functionality of the performance management system, as required by Municipal planning and performance management regulation 14(1)(b)(i).
37. The internal audit unit did not assess the extent to which the performance measurements were reliable in measuring the performance of the municipality on key and general performance indicators, as required by Municipal planning and performance management regulation 14(1)(b)(iii).
38. The internal audit unit did not audit the performance measurements on a continuous basis, as required by Municipal planning and performance management regulation 14(1)(c).

Procurement and contract management

39. Awards were made to providers who are in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulations 44.
40. Sufficient appropriate audit evidence could not be obtained that quotations were awarded only to bidders who submitted 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).
41. Persons in the service of the municipality business interest in quotations awarded by the municipality failed to disclose such interest, as required by the code of conduct for staff members issued in terms of the Municipal Systems Act.

Human resource management

42. Employees worked more than the maximum overtime hours allowed.
43. Performance bonuses were paid to employees who were not entitled to such bonuses

Expenditure management

44. Payments were made without the approval of the accounting officer or a properly authorised official as required by section 11(1) of the Municipal Finance Management Act..
45. 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.

Revenue Management

46. An effective system of internal control for revenue was not in place, as required by section 97(e) of the Municipal Finance Management Act

Asset management and liability management

47. 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.
48. 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.

Consequences management/ Financial Misconduct

49. Council condoned irregular expenditure without conducting an investigation by council committee to determine recoverability of the expenditure, as required by section 32(2) of the Municipal Finance Management Act
50. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the Municipal Finance Management Act.
51. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section [32(2)/ 102(1)] of the Municipal Finance Management Act.
52. 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 Municipal Finance Management Act

Internal control

53. 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 qualified audit opinion, the findings on the annual financial

statement and the findings on compliance with laws and regulations included in this report.

Leadership

54. The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Financial and performance management

55. The Accounting Officer did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting
56. Compliance with laws and regulations was not reviewed and monitored by the accounting officer.
57. The Accounting Officer did not design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

Governance

58. The Accounting Officer did not ensure that there is an adequately resourced and functional internal audit unit that identifies internal control deficiencies and recommends corrective action effectively
59. Risk management activities were not adequately conducted as it did not identify all the risk affecting the municipality.

Auditor-General

Polokwane
30 July 2014



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence