

Report of the auditor-general to Limpopo Provincial Legislature and the council on Polokwane Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Polokwane Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets and cash flow statement and the statement of comparison of budget with actual amounts for the year then ended, as well as the notes to the financial statement, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of this auditors report, the financial statements present fairly, in all material respects, the financial position of the municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act no. 56 of 2003 (MFMA) and the Division of Revenue Act of South Africa, 2017 (Act No.3 of 2017).

Basis for qualified opinion

Revenue from exchange transactions

3. I identified differences between the municipality's calculation of the estimated revenue from exchange transaction and the underlying records stated at R1 351 943 184 (2016-17: R1 211 124 464) in note 17 to the financial statements. Furthermore, the assumption used did not allow for a consistent identification of all estimated amounts and the allocation thereof. As the municipality did not maintain adequate records to determine estimated amounts of revenue from exchange transaction at year end, I was unable to determine the full extent of the over or understatement of revenue from exchange transaction as it was impracticable to do so. Additionally, there was an impact on the receivables from exchange transactions stated at R658 444 827 (2016-17: R426 257 018).

Commitments

4. The municipality did not have adequate systems in place to record amounts spent to date against contract amounts for capital commitments stated at R2 194 924 329 as disclosed in note 33 to the financial statements. Consequently, the commitments amount as disclosed in note 33 to the financial statements, is overstated by R 806 million.

Context for the opinion

5. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
6. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Restatement of corresponding figures

9. As disclosed in note 30 to the financial statements, the corresponding figures for 30 June 2017 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2018.

Significant uncertainties

10. With reference to note 34 of the financial statements, the municipality is currently involved in litigation with various service providers, employees and third parties. The ultimate outcomes of the matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements

Material impairment

11. As disclosed in note 12 to the financial statements, material impairment to the amount of R673 637 070 (2016-2017: R536 124 467) was raised to provide for irrecoverable trade debtors as a result of doubt over the collectability of the long outstanding consumer debts.

Unauthorised expenditure

12. As disclosed in note 35.1 to the financial statements, the municipality incurred R411 050 617 (2016-17: R289 055 633) in unauthorised expenditure as expenditure was incurred in excess of the limits of the amounts provided for the approved budget.

Irregular expenditure

13. As disclosed in note 35.3 of the financial statements, the municipality incurred irregular expenditure of R89 451 308 (2016-17: R198 754 608) in contravention of the municipal supply chain management (SCM) regulations.

Other matters

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

Unaudited supplementary schedules

15. 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 this and, accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

16. 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.

Responsibilities of accounting officer for the financial statements

17. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with GRAP and the requirements of the 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.
18. In preparing the financial statements, the accounting officer is responsible for assessing the Polokwane Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

19. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
20. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

21. 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 material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
22. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the

completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

23. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2018:

Development priorities	Pages in the annual performance report
Development priority– KPA 2: Basic services and infrastructure development	26 – 40
Development priority– KPA 3: Local Economic Development	77 – 80

24. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
25. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

KPA 2 – Basic services and infrastructure development

26. Planned target for this indicator was not specific in clearly identifying the nature and required level of performance.

Indicator description	Planned target
<u>Percentage increase of households with access to electrification from 95,6% to 96,69%</u>	<u>96,69%</u>
<u>Percentage increase of households with access to sanitation from 59,5% (142 274) to 60,46% (144 569) by 30 June 2018</u>	<u>60,46%</u>
<u>Increase percent of households with access to waste removal services from 43,07% (102 987) to 43,08% (103 015) by 30 June 2018</u>	<u>43,08 %</u>
<u>Increased percentage of households with access to water from 82,3% (196792) to 83,4% (199 422) by 30 June 2018</u>	<u>83,4%</u>

Various indicators

27. The municipality did not have an adequate record keeping system to enable reliable reporting on achievement of the indicators listed below. As a result, I was unable to obtain sufficient appropriate audit evidence in some instances, while in other cases the supporting evidence provided did not agree to the reported achievements. Based on the supporting evidence that was provided, the achievement of these indicators was different to the reported achievement in the annual performance report. I was also unable to further confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements of the indicators listed below:

<u>Indicator description</u>	<u>Reported achievement</u>	<u>Audited value</u>
<u>Percentage increase of households with access to electrification from 95,6% to 96,69%</u>	<u>0.67%</u>	<u>1%</u>
<u>Percentage increase of households with access to sanitation from 59,5% (142 274) to 60,46% (144 569) by 30 June 2018</u>	<u>1.40%</u>	<u>2%</u>
<u>Increased percentage of households with access to water from 82,3% (196 792) to 83,4% (199 422) by 30 June 2018</u>	<u>1.26%</u>	<u>1%</u>

KPA 3- Local economic development

Rural development strategy developed and submitted to council for approval by 30 June 2018

28. The reported measures taken to improve performance against the planned target, did not agree to the supporting evidence provided. Based on the supporting evidence provided, the measures taken to improve performance were withdrawal of the rural development strategy and not appointment of service providers and allocation of budget as reported in the annual performance report.

Various indicators

29. The reported achievements in the annual performance report did not agree to the supporting evidence provided for the target listed below:

<u>Planned target</u>	<u>Reported achievement</u>	<u>Audited value</u>
<u>Number of job opportunities created through the municipal LED initiatives (events at new and old Peter Mokaba Stadium) by 30 June 2018 (Temporary job opportunities)</u>	<u>423</u>	<u>444</u>
<u>Number of SMME capacitated through training and workshops (training offered by the municipality and sector institutions) by 30 June 2018</u>	<u>229</u>	<u>200</u>
<u>Number of job opportunities created through the EPWP by 30 June 2018 (temporary job opportunities)</u>	<u>3288</u>	<u>2314</u>

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<u>Planned target</u>	<u>Reported achievement</u>	<u>Audited value</u>
<u>Number of tourist operators supported through marketing at trade shows.</u>	<u>256</u>	<u>49</u>

Other matters

30. I draw attention to the matters below.

Achievement of planned targets

31. Refer to the annual performance report on pages 26 to 40; 77 to 80 for information on the achievement of 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 paragraphs 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 KPA 2: basic services and infrastructure development and KPA 3: local economic development. As management subsequently corrected only some of the misstatements, we raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

33. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

34. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements, performance and annual reports

35. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.

Material misstatements of non-current assets, current assets, current liabilities, revenue, expenditure, budget statement, cash flow statement and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and

supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion

Human resources

36. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Expenditure management

37. Money owed by the municipality was not always paid within 30 days as required by section 65(2)(e) of the MFMA
38. Reasonable steps were not taken to prevent irregular expenditure amounting to R89 451 308 as disclosed in note 35,3 to the annual financial statements, as required by section 62(1)(d).
39. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R411 050 617, as disclosed in note 35,1 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

Revenue management

40. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA
41. 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.

Consequence management

42. Some of the unauthorised 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) of the MFMA.

Conditional grant

43. I was unable to obtain sufficient appropriate audit evidence that the PTISG, MIG and NDPG was spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of the DoRA.

Strategic planning

44. The performance of Polokwane Housing Association was not monitored and reviewed as part of the annual budget process, as required by section 93B(b) of the MSA.

Other information

45. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the consolidated and financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in the auditor's report.
46. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
47. In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

48. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, findings on the basic service and infrastructure development, local economic development and the findings on compliance with legislation included in this report.
49. Leadership was slow in addressing quality controls weaknesses in the preparation of financial statements, management and reporting on performance information and monitoring of non-compliance with legislation, which resulted in a number of instances of non-compliance. The failure to have adequate processes for the three audit focus areas are preventing the achievement of improved audit outcomes.
50. The municipality's 2030 vision of building a smart city is largely dependent on an effective ICT system that will integrate the strategic vision with an operational plan for effective service delivery. The municipality did not have a documented and approved ICT operational plan in place for the 2017-2018 financial year to assist with the execution of the ICT strategy. Furthermore, the responsibilities of an information security officer and IT governance champion had not been formally delegated to an information security officer and an IT governance champion. Failure to adequately address the identified weakness will impact the achievement of vision 2030.
51. The municipality did not have a proper filing system/a proper record management system to maintain information that supported the reported performance in the annual performance report. This included information that related to the collection, collation, verification, storing and reporting of actual performance information, as a result, some of the reported performance information were not adequately supported, resulting findings on performance information.

Failure to keep proper records and to regularly reconcile the accounting records contributed to the audit outcome on performance management and financial reporting.

Auditor-General

Polokwane

5 December 2018



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit¹

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priorities and on the municipalities compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit 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 municipalities internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the municipalities ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipalities to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

