REPORT OF THE AUDITOR-GENERAL TO LIMPOPO PROVINCIAL LEGISLATURE AND COUNCIL ON POLOKWANE MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Polokwane Municipality set out on pages ... to .... which comprise statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets and cash flow statement 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 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 the Division of Revenue Act of South Africa (Act No. 2 of 2013 (DoRA) 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 controls 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 controls. 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 opinion.
Basis of qualified opinion

Property, plant and equipment

6. During 2014, the municipality retrospectively adjusted the values of its infrastructure and community assets. I was unable to obtain sufficient appropriate audit evidence regarding the valuation of infrastructure and community assets included in the property, plant and equipment as the incorrect measurements and unit rates were applied during the revaluation of the assets. I was unable to confirm the correctness of the values recorded as property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustment relating to infrastructure and community assets of R7 029 372 815 (2013: R7 108 262 723) as disclosed in note 8 and the revaluation reserve of R1 922 512 450 (2013: R1 929 371 574) to the annual financial statements were necessary.

7. I identified a number of assets belonging to the municipality that were not recorded in the financial statements and accounting records. In addition, I could not physically verify certain assets that were in the accounting records. I was unable to confirm the value of the property, plant and equipment by alternative means. Consequently I was unable to determine whether any adjustment relating to infrastructure and community assets of R7 029 372 815 (2013: R7 108 262 723) as disclosed in note 8 and the revaluation reserve of R1 922 512 450 (2013: R1 929 371 574) to the annual financial statements were necessary.

8. As a result of the preceding paragraphs, the depreciation expense, accumulated depreciation on infrastructure and community assets and accumulated surplus were misstated due to the various errors which have been noted relating to the balances. I was unable to determine whether any adjustment was necessary relating to the depreciation expense for infrastructure and community assets of R404 979 568 (2013: R398 696 407) and the accumulated depreciation for infrastructure and community assets of R7 029 372 815 (2013: R7 108 262 723) as disclosed in Note 8 to the financial statements and accumulated surplus of R5 785 124 504 (2013: R5 843 751 426) as disclosed in the statement of changes in net assets.

Aggregation / Accumulation of immaterial uncorrected misstatements

9. The financial statements were materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following items making up the statement of financial position and the statement of financial performance and the notes to the financial statements:

- Trade and other payables of R313 532 093 is understated by R26 480 906.
- Investment of R67 217 189 is overstated by R8 217 389.
- Housing Development Reserve of R10 444 442 is overstated by R9 629 648.

Qualified opinion

10. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly in all material respects, the financial position of municipality as at 30 June 2014 and its financial performance and cash flows for the year ended, in accordance with SA Standards of GRAP, the
requirements of the MFMA, and the DoRA.

**Emphasis of matters**

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

**Restatement of corresponding figures**

12. As disclosed in note 30 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of errors discovered during 2014 in the financial statements of the municipality at, and for the year ended, 30 June 2013.

**Material losses**

13. As disclosed in note 41 to the financial statements, material losses to the amount of R97 356 152 were incurred as a result of water and electricity losses.

**Material underspending**

14. As disclosed in the statement of comparison of budget and actual amounts, the municipality has materially underspent on its budget to the amount of R251 383 777. As a consequence, the municipality has not achieved all of its objectives in mainly the budget and treasury units.

**Unauthorised expenditure**

15. As disclosed in note 35.1 to the financial statements, the municipality incurred R370 784 431 in unauthorised expenditure as expenditure was incurred in excess of the limits of the amounts provided for the approved budget.

**Irregular expenditure**

16. As disclosed in note 35.3 to the financial statements, the municipality incurred irregular expenditure of R96 273 322 in contravention of the supply chain management (SCM) regulations.

**Additional matters**

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

**Unaudited supplementary schedules**

18. 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.
Unaudited disclosure notes

19. 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.

Report on other legal and regulatory requirements

20. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected development objectives presented in the annual performance report, non-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 on these matters.

Predetermined objectives

21. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priority presented in the annual performance report of municipality for the year ended 30 June 2014:
   - Basic services and infrastructure development on pages X to X

22. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

23. I evaluated the usefulness of 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 priority. 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 (FMPI).

24. I 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 selected development priorities are as follows:

Basic services and infrastructure development

Usefulness of information

Measurability

26. The FMPI requires that performance indicators and performance targets must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 23% of the performance indicators and 31% of performance targets were not well defined. This was due to a difference in the interpretation of the requirements.
Reliability of information

27. The FMPPI requires municipalities to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned indicators and targets.

28. We were unable to obtain the information and explanations we considered necessary to satisfy ourselves as to the reliability of the reported performance information with respect to basic services and infrastructure development. This was due to limitations placed on the scope of our work due to the fact that the municipality could not provide sufficient appropriate evidence in support of the reported performance information and the fact that the records did not permit the application of alternative audit procedures.

Additional matter

29. I draw attention to the following matter:

Unaudited supplementary schedules

30. 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. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected programmes reported in paragraphs 26 to 28 of this report.

Compliance with laws and regulations

31. I performed procedures to obtain evidence that the entity had 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

32. 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 MFMA.

33. The municipality did not set measurable performance targets for the financial year with regard to each of the development priorities and objectives and key performance indicators set out in the IDP, as required by section 41(1)(b) of the MSA, 2000 (Act No. 32 of 2000) (MSA) and the Municipal planning and performance management regulation 12(1) and 12(2)(e).

Budgets

34. The municipality incurred expenditure 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

35. 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 identified by the auditors in the submitted financial statements were not adequately corrected, which resulted in the financial statements receiving a qualified audit opinion.

Asset management and liability management

36. An adequate management, accounting and information system which accounts for assets and liabilities was not in place, as required by section 63(2)(a) of the MFMA.

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

Expenditure management

38. The accounting officer did not take reasonable steps to prevent unauthorised expenditure and irregular expenditure, as required by section 62(1) (d) of the MFMA.

Revenue management

39. An effective system of internal control for receivables and revenue, as required by section 64(2) (f) of the MFMA was not in place.

Procurement and contract management

40. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) and (c).

41. Quotations were accepted from prospective providers who are not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of SCM regulation 16(b) and 17(b).

42. Awards were made to providers whose directors/ principal shareholders are in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulations. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).

Internal control

43. 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 qualification of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.
Leadership

44. Although the accounting officer reviewed the AFS and the annual performance plan with the assistance of the National Treasury and internal audit prior to their submission for audit, a number of material misstatements were again identified. There is generally a lack of GRAP knowledge in the municipality.

45. The structure of the asset unit and the capacity in the said unit of the municipality is inadequate to manage the assets of the municipality properly.

Financial and performance management

46. Management did not implement the adequate daily, monthly and year-end controls as designed for the municipality's business processes to ensure accurate processing of information.

47. The municipality did not have sufficient monitoring controls to ensure that assets are properly managed and reported according to the approved asset policy and reconciled to accounting records.

48. Compliance with applicable laws and regulations was not adequately reviewed and monitored.

Auditor - Cerecal

Polokwane

30 November 2014

Auditor General

South Africa

Auditing to build public confidence
Step 5: Representation by Corporate Executive

Based on the representations stated above, except as documented below, I support the auditor’s opinion expressed.

Comments by CE

No changes to the audit opinion.

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Signed by:

[Signature]

Corporate Executive

30/1/2014

Date