



AUDITOR - GENERAL
SOUTH AFRICA

The Speaker
Polokwane Municipality
P.O. Box 111
Polokwane
0700

1 December 2011

Reference: 60762REG10/11

Dear Sir

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Thabatshweu Housing Company (Pty) Ltd t/a Polokwane Housing Association for the year ended 30 June 2011

The above-mentioned report of the Auditor-General is herewith submitted 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) of South Africa. A copy of my evenly numbered letter to the Municipal Manager is attached for your information and attention.

Yours sincerely

Senior Manager: Limpopo

Enquiries: Tanya de Jager
Telephone: 015 283 9346
Email: tanyad@agsa.co.za

**REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE AND
THE COUNCIL ON THABATSHWEU HOUSING COMPANY (PTY) LTD TRADING AS
POLOKWANE HOUSING ASSOCIATION**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Thabatshweu Housing Company (Pty) Ltd trading as Polokwane Housing Association, which comprise the statement of financial position as at 30 June 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, and the director's report, as set out on pages 3 to 16.

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 Companies Act of South Africa, 1973 (Act No. 61 of 1973) (Companies Act), and for such internal control as management 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

1. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and section 126(3) of MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
2. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. 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.
3. 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.
4. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion

Basis for qualified opinion

Investment property

5. In my previous audit report dated 30 November 2010, I reported that the fair value of the investment property as at 30 June 2010 was not determined. This has not been adequately resolved in the current year, as the municipal entity did not determine the fair value. Consequently, I was unable to satisfy myself as to the valuation of the comparative amount for investment property of R79 million.

Irregular expenditure

6. The municipal entity procured goods and services amounting to R1 602 579 in contravention of the supply chain management requirements. The municipal entity has not disclosed this amount as irregular expenditure in a note to the financial statement as required by section 125(2)(d) of the MFMA. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all irregular expenditure was properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of irregular expenditure.

Qualified opinion

7. In my opinion, except for the possible 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 the Thabatshweu Housing Company (Pty) Ltd trading as Polokwane Housing Association as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and in the manner required by the MFMA and Companies Act.

Emphasis of matters

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

Restatement of corresponding figures

8. As disclosed in note 13 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of an error discovered during 2011 in the financial statements of the Thabatshweu Housing Company (Pty) Ltd trading as Polokwane Housing Association at, and for the year ended, 30 June 2010.

Going concern

9. Note 18 to the financial statements indicates that the Thabatshweu Housing Company (Pty) Ltd trading as Polokwane Housing Association's current liabilities exceeded its total assets by R10,2 million on 30 June 2011. This condition, along with other matters as set forth in note 18, indicate the existence of a material uncertainty that may cast significant doubt on the entity's ability to operate as a going concern.

Additional matter

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

Unaudited supplementary schedules

10. The supplementary information set out on page 16 does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

11. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

12. I was unable to complete all of my procedures on the audit of performance against predetermined objectives as the municipal entity did not submit the annual performance report as required by section 46 of the MSA and section 121(4)(d) of the MFMA and part C of *General notice 1111 of 2010*, issued in *Government Gazette No. 33872 of 15 December 2010*.

Compliance with laws and regulations

Strategic planning and performance management

13. The municipal entity did not enter into a service delivery agreement with the Polokwane Local Municipality for the provision of the housing service, as required by section 76(b) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) read with regulation 9(2)(b)(ii) of the Municipal Planning and Performance Management Regulations, 2001.
14. Consequently, the accounting officer of the municipal entity did not –
 - prepare and include an assessment of the performance against any measurable performance objectives set, in terms of the service delivery agreement or other agreement between the entity and its parent municipality as required by section 46 of the MSA read with section 121(4)(d) of the MFMA;
 - by 20 January 2011 assess the performance of the entity during the first half of the financial year, taking into account the targets set in the service delivery agreement, business plan or other agreement with the entity's parent municipality as required by section 88(1)(a) of the MFMA; and
 - submit the results of the assessment on the performance of the municipal entity during the first half of the financial year to the board of directors of the entity and the parent municipality of the entity as required by section 88(1)(b) of the MFMA.

Annual financial statements, performance and annual reports

15. 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 investment property, National Housing Finance Corporation Loan, deferred income and disclosure items identified by the auditors were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Audit committee

16. No audit committee was in place as required by section 166(1) of the MFMA.

Internal audit

17. The municipal entity did not have an internal audit unit in place as required by section 165(1) of the MFMA.

Procurement and contract management

18. The municipal entity did not implement a SCM policy as required by section 111 of the MFMA.
19. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of Supply Chain Management (SCM) regulation 17(a) and (c).
20. Goods and services with a transaction value above R200 000 were procured without inviting competitive bids as per the requirements of SCM regulation 19(a) and 36(1).
21. Awards were made to suppliers who did not submit a declaration on their employment by the state or their relationship to a person employed by the state as per the requirements of SCM regulation 13(c).
22. 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 and SCM regulation 28(1)(a).
23. A list of accredited prospective providers was not in place for procuring goods and services through quotations as required by SCM regulation 14(1)(a).

Expenditure management

24. Money owing by the municipal entity was not always paid within 30 days of receiving an invoice or statement, as required by section 99(2)(b) of the MFMA.

25. The accounting officer did not take reasonable steps to prevent irregular expenditure, as required by section 95(d) of the MFMA.

INTERNAL CONTROL

26. In accordance with the PAA and in terms of General notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

- **Leadership**

An environment has not been established that is conducive to good accountability and set the standard for sound corporate governance.

Polokwane Local Municipality does not exercise control over its municipal entity in ensuring compliance with laws and regulations and addressing prior year's audit findings.

Inability of the leadership, both the parent municipality and the municipal entity, to ensure the municipal entity is operating as a going concern and complies with the SCM Regulations.

Management did not take actions on the prior year's external audit findings.

- **Financial and performance management**

Staff members do not understand the applicable financial reporting framework requirements, resulting in material amendments to the financial statements.

- **Governance**

There was no audit committee and internal audit unit in place at the municipal entity.

OTHER REPORTS

Investigation

Investigation in progress

27. The Special Investigating Unit commenced after year-end with an investigation to, *inter alia*, the legal status of the municipal entity and the development of the housing units.

Auditor-General

Polokwane

30 November 2011



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence



AUDITOR - GENERAL
SOUTH AFRICA

The Accounting Officer
Polokwane Municipality
P.O. Box 111
Polokwane
0700

1 December 2011

Reference: 02384REG10/11

Dear Madam

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Polokwane municipality for the year ended 30 June 2011

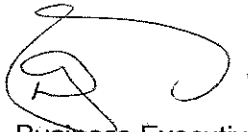
1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. 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.
3. 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.
4. 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.
5. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
6. As soon as practically possible after tabling of the annual report before Council you are required to arrange a briefing session between the AGSA team and the whole Council during which the audit report and the way forward is to be discussed.

Auditing to build public confidence

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

Kindly acknowledge receipt of this letter.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Tanya de Jager', enclosed within a large, loopy circular scribble.

Business Executive: Limpopo

Enquiries: Tanya de Jager

Telephone: 015 283 9326

Email: tanyad@agsa.co.za



AUDITOR - GENERAL
SOUTH AFRICA

The Speaker
Polokwane Municipality
P.O. Box 111
Polokwane
0700

1 December 2011

Reference: 02384REG10/11

Dear Sir

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Polokwane Municipality for the year ended 30 June 2010

The above-mentioned report of the Auditor-General is herewith submitted 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) of South Africa. A copy of my evenly numbered letter to the Municipal Manager is attached for your information and attention.

Yours sincerely

Business Executive: Limpopo

Enquiries: Tanya de Jager
Telephone: 015 283 9326
Email: tanyad@agsa.co.za



AUDITOR - GENERAL
SOUTH AFRICA

The Accounting Officer
Polokwane Municipality
P.O. Box 111
Polokwane
0700

1 December 2011

Reference: 02384REG10/11

Dear Madam

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Polokwane municipality for the year ended 30 June 2011

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. 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.
3. 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.
4. 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.
5. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
6. As soon as practically possible after tabling of the annual report before Council you are required to arrange a briefing session between the AGSA team and the whole Council during which the audit report and the way forward is to be discussed.

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

Kindly acknowledge receipt of this letter.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Tanya de Jager', written over a circular scribble.

Business Executive: Limpopo

Enquiries: Tanya de Jager
Telephone: 015 283 9326
Email: tanyad@agsa.co.za



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

**AUDITOR'S REPORT OF THE
AUDITOR-GENERAL TO THE
LIMPOPO PROVINCIAL
LEGISLATURE AND THE COUNCIL
ON POLOKWANE LOCAL
MUNICIPALITY**

30 November 2011

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Polokwane Local Municipality, which comprise the statement of financial position as at 30 June 2011, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and 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), and for such internal control as management 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

1. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and section 128(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
2. I conducted my audit in accordance with International Standards on Auditing and General Notice 1111 of 2010 issued in Government Gazette 33872 of 15 December 2010. 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.
3. 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.
4. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion

Basis for qualified opinion

Investment property

5. Standards of Generally Recognised Accounting Practice, GRAP 16, *Investment property*, requires property held to earn rentals or for capital appreciation to be recognised as investment property. The municipality has incorrectly recognised investment property as property, plant and equipment. Because of the inadequate information in the asset register, I was unable to confirm or verify by alternative means the value of the investment property classified as property, plant and equipment. Consequently, I was unable to determine the effect on investment property and property, plant and equipment included in the financial statements.

Handwritten initials

Property, plant and equipment

6. I was unable to verify the completeness of land and buildings as I could not trace the assets to the general ledger. The municipality did not perform a reconciliation between the underlying accounting records and the general ledger to ensure that land and buildings were completely recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of land and buildings stated at R1,9 billion in the financial statements.
7. The municipality applies the revaluation model for subsequent measurement of land and buildings. However, the municipality did not assess whether there were any changes in the fair value of land and buildings which require a further revaluation in accordance with Standard of Generally Recognised Accounting Practice, GRAP 17, *Property, plant and equipment*. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself that the fair value of a revalued asset did not differ materially from its carrying amount.
8. South African Statement of Generally Accepted Accounting Practice, IAS 36, *Impairment of assets* and International Public Sector Accounting Standards, IPSAS 21, *Impairment of non-cash generating assets* require that a municipality assess at each reporting date whether there is any indication that an asset may be impaired. No supporting documentation was available for assessment of impairment. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself that there is no indication that assets should not have been impaired.

Consumer debtors

9. Included in consumer debtors of R193,5 million, as disclosed in note 12 to the financial statements, are a net credit balance of R18,8 million and a debit balance of R7,8 million, representing suspense accounts. The municipality's records did not permit the application of alternative audit procedures regarding the suspense accounts. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the valuation, allocation of and obligations and rights pertaining to the suspense account balances.

Qualified opinion

10. In my opinion, except for the possible 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 the Polokwane Local Municipality as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with the SA standards of GRAP and in the manner required by the MFMA.

Emphasis of matters

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

Restatement of corresponding figures

11. As disclosed in note 28 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of errors discovered during 2011 in the financial statements of the Polokwane Local Municipality at, and for the year ended, 30 June 2010.

Irregular expenditure

12. As disclosed in note 35.3 to the financial statements, the municipality incurred irregular expenditure of R14 million as a result of non-compliance with the supply chain management (SCM) regulations.

Additional matter

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

Unaudited supplementary schedules

13. 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

14. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages XX to XX and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

Reliability of information

15. The reported performance information was deficient in respect of the following criteria:

- **Completeness:** All indicators and targets that should have been recorded have not been included in the integrated development plan.

16. The following audit finding relate to the above criteria:

- The integrated development plan did not include the key performance indicators and performance targets determined in accordance with its performance management system, as required by sections 26(f) and 41(1)(b) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001. The municipality included the indicators and targets in the service delivery and budget implementation plan.

Compliance with laws and regulations

Strategic planning and performance management

17. The municipality did not enter into a service delivery agreement with its municipal entity, Thabatsweu Housing Company (Pty) Ltd, trading as Polokwane Housing Association for the provision of the municipal housing service as required by section 76(b) of the MSA, read with regulation 9(2)(b)(ii) of the Municipal Planning and Performance Management Regulations.

Budgets

18. The municipality exceeded its budget by R89,8 million as a result of non-cash transactions such as depreciation and bad debt provision, in contravention of section 15 of the MFMA.

Annual financial statements, performance and annual reports

19. 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 inventory, provisions, receivables, revaluation reserve, property, plant and equipment, and disclosure items identified by the auditors were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

20. The mayor did not table in council the 2009-10 annual report of the municipality and of the municipal entity under its sole control, within seven months after the end of the financial year as required by section 127(2) of the MFMA. The mayor did submit to the council a written explanation setting out the reasons for the delay.

21. The accounting officer did not make public the council's oversight report on the 2009-10 annual report within seven days of its adoption, as required by section 129(3) of the MFMA.

Procurement and contract management

22. Goods and services with a transaction value of between R10 000 and 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).

23. Goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as per the requirements of SCM regulation 19(a) and 36(1).

24. Awards were made to providers who are persons in service of the municipality, in contravention of SCM regulation 44. Furthermore, the providers failed to declare that they were in the service of the municipality, as required by SCM regulation 13(c).

25. Awards were made to providers who are persons in service of other state institutions, in contravention of the requirements of SCM regulation 44. Furthermore, the providers failed to declare that they were in the service of the state as required by SCM regulation 13(c).

Expenditure management

26. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.

27. 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.

Asset management

28. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of internal control for assets (including an asset register), as required by section 63(2)(c) of the MFMA.

INTERNAL CONTROL

29. In accordance with the PAA and in terms of *General notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

• Leadership

The accounting officer and management did not in all instances exercise sufficient oversight responsibility over compliance with laws and regulations.

The Polokwane Local Municipality does not exercise oversight responsibility over its municipal entity to ensure that a service delivery agreement exists with its entity.

• Financial and performance management

Pertinent financial information is not adequately identified and assessed in compiling a credible budget, which resulted in the municipality exceeding the total budget.

The financial statements had not adequately been reviewed for completeness and accuracy by the chief financial officer.

Employees tasked to prepare financial statements do not in all instances have the necessary competency to understand the financial reporting framework.

Periodic reconciliations of all accounts are not performed to ensure that transactions have occurred and are completely and accurately processed.

Improper filing of financial documentation resulted in documentation not being provided.

• Governance

Internal audit did not fulfil its responsibilities in all instances by auditing the procurement of goods and services, asset reconciliations and suspense accounts as part of its internal audit processes.

Management has not taken actions to address the risks relating to the suspense accounts.

OTHER REPORTS

Investigations

Investigations completed during the financial year

30. Investigations were conducted into alleged fraud, theft and corruption at three business units within the municipality. The investigations were completed and the accounting officer is assessing the recommendations.
31. An investigation was conducted by an independent service provider at the request of the municipality. The investigation was initiated based on allegations of illegal land development and use. The investigation was completed and disciplinary procedures were instituted against employees, while the implementation of some recommendations was still ongoing at the reporting date.

Phiso - General

Pretoria

30 November 2011



AUDITOR GENERAL
SOUTH AFRICA

Auditing to build public confidence