AUDITOR'S 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 2010, the statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, 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 the South African Standards of General Recognised Accounting Practice (SA standards of GRAP) and in the manner required by the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.

4. I conducted my audit in accordance with the International Standards on Auditing and General Notice 1570 of 2009 issued in Government Gazette 32758 of 27 November 2009. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement.

5. 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.

6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.
Basis for qualified opinion

Provision

7. The post-employment benefit plan for retired and current employees has not been recognised in accordance with South African Statement of Generally Accepted Accounting Practice, IAS 19, Employee benefits. Due to the nature of the provision I was unable to perform alternative procedures to determine the value. The provision, employee cost and retained income, is understated by an unquantifiable amount.

Qualified opinion

8. In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Polokwane Local Municipality for the year ended 30 June 2010 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

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

Significant uncertainties

10. As disclosed in note 33 to the financial statements, the municipality is currently involved in litigation with service providers and consumers. The outcome of the matters cannot be determined at present.

Restatement of corresponding figures

11. As disclosed in note 28 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of errors discovered during 2010 in the financial statements of the Polokwane Local Municipality at, and for the year ended 30 June 2009.

Unauthorised expenditure

12. As disclosed in note 35.1 to the financial statements, the municipality incurred unauthorised expenditure of R30.4 million because it had exceeded the total amount appropriated in terms of the municipality’s approved adjustment budget.

Going concern

13. Whilst the Polokwane Local Municipality has prepared financial statements on a going concern basis, note 41 to the financial statements indicates that as at 30 June 2010 the municipality’s current liabilities exceeded its current assets by R125.3 million. This, along with other matters as set forth in the note to the financial statements, indicates the existence of a material uncertainty that may cast significant doubt on the municipality’s ability to operate as a going concern.

Additional matter

14. I draw attention to the matter below. My opinion is not modified in respect of this matter
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 these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

16. As required by the PAA and in terms of General Notice 1570 of 2009 issued in Government Gazette 32758 of 27 November 2009, I include below my findings on the report on predetermined objectives, compliance with key laws and regulations and financial management (internal control).

Predetermined objectives

17. Material findings on the report on predetermined objectives, as set out on pages XX to XX, are reported below:

Non-compliance with regulatory requirements

Inadequate content of integrated development plan

18. The integrated development plan of the municipality did not include the key performance indicators and performance targets set in terms of its performance management system, as required by sections 26(i) 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.

No service delivery agreement

19. The municipality did not enter into a service delivery agreement with the municipal entity, Thabatshweu Housing Company (Pty) Ltd, trading as Polokwane Housing Association, for the provision of a municipal service, as required in terms of section 76 of the MSA and regulation 9(2) of the Municipal Planning and Performance Management Regulations, 2001.

Lack of adoption or implementation of a performance management system

20. The municipality did not implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required in sections 36, 38 and 41(2) of the MSA and regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

Internal auditing of performance measurements

21. The Polokwane Municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required in terms of section 45 of the MSA.

Reliability of information

22. Appropriate audit evidence in relation to the selected objectives of the technical service department could not be provided. There was no satisfactory audit procedure that I could perform to obtain the required assurance as to the validity, accuracy and completeness of the reported information.
Compliance with laws and regulations

MFMA

The annual budget was not approved in accordance with the applicable law
23. Contrary to the requirements of section 16(1) of the MFMA, the annual budget was not approved by the required date.

The mayor did not meet his legislative responsibility
24. Contrary to the requirements of section 53(1)(c)(ii) of the MFMA, the mayor did not ensure that the council approved the municipality’s service delivery and budget implementation plan within 28 days after the approval of the annual budget.

Audit committee was not functioning properly
25. Contrary to the requirements of section 166(2)(a) of the MFMA, the audit committee did not advise the municipal council and the political office bearers on matters relating to:
   - internal financial control and internal audit
   - risk management
   - accounting policies
   - the adequacy, reliability and accuracy of financial reporting
   - performance management
   - effective governance
   - compliance with the PFMA, the DoRA and any other applicable legislation
   - performance evaluation.

26. Contrary to the requirements of section 166(2)(c) of the MFMA, the audit committee did not respond to the council on the prior year’s findings raised by the Auditor-General of South Africa (AGSA).

Payments not made within the parameters set by the applicable legislation
27. Contrary to the requirements of section 65(2)(e) of the MFMA, payments were not made within the required 30 days from the receipt of an invoice.

Expenditure was incurred otherwise than in accordance with section 15 of the MFMA, resulting in unauthorised expenditure
28. Contrary to the requirements of section 15 of the MFMA, expenditure was not incurred in terms of an approved budget.

Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA)

Expenditure was incurred otherwise than in accordance with sections 15 and 11(3) of the MFMA, resulting in unauthorised expenditure
29. Contrary to the requirements of sections 15 and 47 of the DoRA, the municipality did not meet the conditions attached to conditional grants.
MSA

Supply chain management (SCM) legislative requirements were not met

30. Contrary to the requirements of the MSA, schedule 1 of section 7 and MSA, schedule 2 of section 5A as well as SCM regulation 46(2)(e), annual declarations of interest were not made by all the councillors and senior managers.

INTERNAL CONTROL

31. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives and compliance with the MFMA, MSA and DoRA, but not for the purposes of expressing an opinion on the effectiveness of internal control.

32. The matters reported below are limited to the significant deficiencies regarding the basis for the qualification opinion paragraph, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

- Leadership
  
  Oversight responsibility
  
The accounting officer did not in all instances exercise oversight responsibility over reporting and compliance with laws and regulations.

  Tone at the top
  
  Integrity and ethical values are not developed and understood and do not set the standard for sound corporate governance, as councillors and senior managers did not in all instances declare their interests.

  Action to mitigate risks
  
  Appropriate action was not taken to address the prior year’s audit findings relating to the findings on the report on predetermined objectives.

- Financial and performance management
  
  Proper record keeping
  
  Appropriate audit evidence could not be provided for selected objectives reported in the performance reports.

- Governance
  
  Risk identification
  
  The municipality did not identify risks relating to the achievement of financial reporting objectives which resulted in the qualification.

  Internal audit
  
  The internal audit unit did not focus on the prior year’s audit findings on the report on predetermined objectives.

  Audit committee
  
  The audit committee did not in all instances fulfil its responsibilities, as outlined in the MFMA.
OTHER REPORTS

Investigations

Investigations in progress
33. Investigations are being conducted into alleged fraud, theft and corruption cases at three business units within the municipality. The investigations were still ongoing at the reporting date.

Investigations completed during the financial year
34. Investigations were conducted by independent service providers at the request of the municipality. The investigations were initiated based on allegations of theft, gross negligence and dereliction at the stores and electrical department as well as illegal and unlawful booking of store materials. The investigations have resulted in disciplinary procedures instituted against employees.

35. Instances of alleged fraud, corruption and theft were investigated at three business units within the municipality. At the reporting date the disciplinary processes were still ongoing whilst two employees had resigned before the process was finalised.

Auditor General

Pretoria

30 November 2010

Auditing to build public confidence