

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

Report on the financial statements

Introduction

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 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information 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, 2015 (Act No. 1 of 2015) (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 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 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 audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Polokwane Local Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with SA standard of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. 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 29 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of errors discovered during 2016 in the financial statements of municipality at, and for the year ended, 30 June 2015.

Material impairment

9. As disclosed in note 12 to the financial statements, material impairment to the amount of R572, 29 million (2015: R423, 511 million) was raised to provide for irrecoverable trade debtors as a result of doubt over the collectability of the long outstanding consumer debts.

Material under spending

10. As disclosed in the statement of comparison of budget and actual amounts, the municipality has materially underspent on its capital budget to the amount of R37, 82 million (2015: R179, 11 million).

Unauthorised expenditure

11. As disclosed in note 34.1 to the financial statements, the municipality incurred R287,15 million (2015: R231,77 million) in unauthorised expenditure as expenditure was incurred in excess of the limits of the amounts provided for the approved budget

Irregular expenditure

12. As disclosed in note 34.3 of the financial statements, the municipality incurred irregular expenditure of R274,33 million (2015: R297,57 million) in contravention of the *Municipal Supply Chain Management Regulations (MSCMR)*.

Significant uncertainties

13. With reference to note 33 of the financial statements, the entity is currently involved in litigation with service providers, employees and third parties. The ultimate outcome of the matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

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 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

Report on other legal and regulatory requirements

17. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected key performance area presented in the annual performance report, 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 or conclusion on these matters.

Predetermined objectives

18. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected key performance area presented in the annual performance report of the municipality for the year ended 30 June 2016:

- Key Performance Area (KPA) 2: Basic Service Delivery and Infrastructure on pages 39 to 46

19. I evaluated the usefulness of the 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 key performance area. 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* (FMPPi).

20. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

21. The material finding in respect of the selected key performance area is as follows:

Basic Service delivery and infrastructure

Usefulness of reported performance information

22. I did not identify material findings on the usefulness of the reported performance information.

Reliability of reported performance information

23. The FMPPi requires municipality to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not reliable when compared to the evidence provided.

Additional matter

24. I draw attention to the following matters:

Achievement of planned targets

25. Refer to the annual performance report on page 39 to 46 for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the reliability of the reported performance information in paragraph 21 of this report.

Adjustment of material misstatements

26. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Basic service delivery and Infrastructure. As management subsequently corrected some misstatements, I identified material findings on the reliability of the reported performance information.

Unaudited supplementary schedules

27. 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. I have not audited these schedules and, accordingly, I do not report on them.

Compliance with legislation

28. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Annual financial statements, performance and annual reports

29. 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 non-current assets, current assets and revenue and disclosure items on the presentation of the financial statements, identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

30. Reasonable steps were not taken to prevent unauthorised and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Procurement and contract management

31. Awards were made to providers who are in the service of other state institutions in contravention of MFMA 112(j) and SCM regulation 44. 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).

Information technology management

32. The information technology (IT) audit revealed significant control weakness due to key risks that were not adequately managed and mitigated within the IT areas, resulting in non-compliances with section 62(1)(c)(i) of the MFMA.

Internal control

33. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

34. The accounting officer reviewed the financial statements and the annual performance plan with the assistance of internal audit and the audit committee prior to their submission for audit, but a number of material misstatements were again identified. Officials responsible for preparation of financial statements do not fully understand the requirements of the financial reporting framework.
35. Key positions of municipal manager, chief financial officer and some directors responsible for basic service delivery were not filled within 12 months after it became vacant. This was partly due to a moratorium on filling of vacant posts imposed on municipality in order to accommodate staff from Aganang local municipality.
36. Management of IT functions was inadequate as ICT strategic plans and IT policies were not approved due to changes in leadership. This was further exacerbated by the suspension of the IT manager. Furthermore, users were experiencing challenges with the performance of the accounting system as a result the finance manager did not renew the service level agreement with the service provider in time.

Financial and performance management

37. Management did not implement adequate daily, monthly and year-end controls as designed for the municipality's business processes to ensure accurate processing of information, which resulted in material misstatements on financial statements and the annual performance reports.
38. The municipality did not have a proper records 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. Information was not easily retrievable and made available upon request.
39. Compliance with applicable laws and regulations was not adequately reviewed and monitored by management, which resulted in failure to prevent material non-

compliance.

Governance

40. The audit committee exercises oversight by performing reviews of the financial statements and the performance information reports. However, the audit committee did not enforce accountability to ensure that all recommendations were timeously implemented by management.
41. The review of the financial statements and performance plans and reports was not adequate to detect misstatements on the financial statements and the annual performance reports. Furthermore, there was slow response by management to implement the recommendations of internal audit in some cases.

Auditor-General

Polokwane

30 November 2016



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence