

**REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG  
PROVINCIAL LEGISLATURE AND COUNCIL ON THE CITY OF  
TSHWANE METROPOLITAN MUNICIPALITY  
REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying consolidated and separate financial statements of the City of Tshwane Metropolitan Municipality, which comprise the consolidated and separate statement of financial position as at 30 June 2011, and the consolidated and separate 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 ... to ...

**Accounting officer's responsibility for the consolidated financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor-General's responsibility**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996, section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these consolidated and separate financial statements based on my audit.
4. 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 consolidated and separate financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate 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 consolidated and separate 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 consolidated and separate financial statements.

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

### Opinion

7. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the City of Tshwane Metropolitan Municipality (municipality) and its entities as at 30 June 2011, and their financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA.

### Emphasis of matters

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

### Significant uncertainties

9. With reference to note 53 to the financial statements, the municipality is the defendant in a number of legal cases. The ultimate outcome of these matters cannot presently be determined, and no provision for any liabilities that may result has been made in the financial statements.

### Restatement of corresponding figures

10. As disclosed in note 45 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of various errors discovered during the year ended 30 June 2011.

### Material losses

11. As disclosed in note 58 to the financial statements, the municipality suffered a significant water loss of 70 167 272 kilolitres with a value of R255,8 million during the year under review.
12. As disclosed in note 59 to the financial statements, material losses of 908 354 950 kilowatts amounting to R375,9 million were incurred as a result of electricity distribution losses. The total technical losses of electricity incurred amounted to R242 million. Non-technical losses amount to R133,9 million and are due to electricity theft, tampering and faulty meters.

### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

13. 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 ... to ... and material non-compliance with laws and regulations applicable to the municipality and its entities.

### Predetermined objectives

14. There are no material findings on the annual performance report for the municipality.

#### **Presentation of information**

15. The reported performance information against predetermined objectives was deficient in respect of the following criteria for the municipal entities:
- Performance against predetermined objectives was not reported using the National Treasury guidelines.

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

#### **Actions taken to improve performance not included**

- The annual performance report of Housing Company Tshwane Non Profit Company (Housing Company Tshwane) does not include actions that are taken to improve performance where performance targets have not been met, as required by section 41(1)(d) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000)(MSA).

#### **Usefulness of information**

17. The reported performance information was deficient in respect of the following criteria for the municipal entities:
- Measurability: targets are not specific, measurable and time bound.

18. The following audit findings relate to the above criteria:

#### **Planned and reported targets are not measurable and time bound**

- For the selected objectives on Sandspruit Works Association Non Profit Company (Sandspruit), 68% of the planned and reported targets, as per the revised strategic plan, were not measurable in identifying the required performance.
- For the selected objectives on Sandspruit, 74% of the planned and reported targets, as per the revised strategic plan, were not time-bound in specifying the time period or deadline for delivery.

#### **Reliability of information**

19. The reported performance information was deficient in respect of the following criteria for the municipal entities:
- Validity: The reported performance did not occur and does not pertain to the entity.
  - Accuracy: The amounts, numbers and other data relating to reported actual performance have not been recorded and reported appropriately.

20. The following audit findings relate to the above criteria:

**Reported performance against targets is not valid and accurate when compared to source information**

- For the selected objectives on Sandspruit, 57% of the actual targets reported were not valid when compared to source information.
- For the selected objectives on Sandspruit, 29% of the actual targets reported were not accurate when compared to source information.

**Compliance with laws and regulations**

**Strategic planning and performance management**

21. In the annual performance report of Housing Company Tshwane, the performance review does not include the actual performance of all indicators and targets as required by section 46 of the MSA.
22. Targets as per the Business Plan for the 2010-2011 financial year were not indicated for all indicators as required by section 46 of the MSA for Housing Company Tshwane.

**Budgets**

23. The municipality incurred expenditure in excess of the limits of the amounts provided for in the votes in the approved budget as disclosed in note 46 to the financial statements. This is in contravention of section 15 of the MFMA.
24. The accounting officer of the municipality did not always submit the monthly budget statements to the mayor and the relevant provincial treasury, as required by section 71(1) of the MFMA.
25. The total unforeseen and unavoidable expenditure incurred by the municipality for which no provision was made in the approved budget, exceeded R15 million, in contravention of regulation 72 of the Municipal Budget and Reporting Regulations.

**Annual financial statements**

26. The financial statements submitted for auditing by the municipality, was not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of investment properties identified by

the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

#### **Internal audit**

27. The internal audit did not function for Housing Company Tshwane and Sandspruit as required by section 165 of the MFMA, in that:
- Internal audit did not prepare a risk-based audit plan and an internal audit programme for the financial year under review;
  - Internal audit did not report to the audit committee on the implementation of the internal audit plan;
  - Internal audit did not advise the accounting officer and report to the audit committee on matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management and loss control.
28. Internal audit did not advise the accounting officer and report to the audit committee on matters relating to compliance with the MFMA and other applicable legislation as required by section 165(2)(b) of the MFMA for Housing Company Tshwane and Sandspruit.

### **Procurement and contract management**

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

31. Money owing by the municipality and its entities were not always paid within 30 days of receiving an invoice or statement, as required by sections 65(2)(e) and 99(2)(b) of the MFMA.
32. The accounting officer of the municipality did not take reasonable steps to prevent unauthorised and irregular expenditure as required by section 62(1)(d) of the MFMA.

### **INTERNAL CONTROL**

33. 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 findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

#### **Leadership**

34. The municipality did not have sufficient monitoring controls to ensure proper implementation of the submission of budget information as required by legislation as well to ensure compliance with SCM prescripts.
35. Policies and procedures on performance reporting were not established and implemented at the municipal entities to enable and support the understanding and execution of internal control objectives, processes and responsibilities.

#### **Financial and performance management**

36. Although processes are in place at the municipality to ensure complete and timely reporting to relevant authorities in respect of the budgets, certain reports were not submitted within the required timeframe as required by legislation and the in-year monitoring of expenditure against budget was inadequate.
37. Material adjustments made to the financial statements were mainly due to senior management not reviewing the accuracy and completeness of the financial statements prior to submission for auditing.

38. Regular, accurate and complete performance reports that are supported by reliable information were not prepared by the municipal entities.
39. Compliance with applicable laws and regulations were not adequately reviewed and monitored.

#### **Governance**

40. An adequately resourced and functioning internal audit unit that identifies internal control deficiencies and recommends corrective actions effectively was not in place for the municipal entities as mentioned in paragraphs 27 and 28 of this report.

#### **OTHER REPORTS**

##### **Investigations**

41. Investigations are being conducted at the municipality in respect of allegations relating to the affairs of the municipality which have been referred to the Special Investigating Unit by the President in terms of Proclamation R62 of 2010, dated 08 November 2010. The full review period is 1 January 2007 to 8 November 2010. The investigation commenced on 1 December 2010 and will be conducted over a 24 month period, up to 31 December 2012. The investigation includes the areas of SCM, fraud and financial misconduct.
42. Thirty cases were investigated at the municipality by the forensic audit section of the internal audit division for the financial year under review. Of these, 16 cases were finalised and 14 are still in progress. The nature of the cases covered a wide spectrum of activities including SCM, fraud and financial misconduct.
43. An investigation is being conducted by the Special Investigating Unit at Civirelo Water Non Profit Company, based on the findings included in the due diligence report prepared for the municipal entity. The investigation relates to various SCM and governance issues and covers the period 1 January 2007 until the date of disestablishment of the entity, 30 June 2010. The investigation had not yet been finalised at the date of this report.

Johannesburg

14 December 2011



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*