

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

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

1. I have audited the consolidated and separate financial statements of the City of Tshwane Metropolitan Municipality (municipality) set out on pages xx to xx, which comprise the consolidated and separate statement of financial position as at 30 June 2013 and the consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement, statement of comparison of budget and actual amounts for the year then ended, and 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 consolidated and separate financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is 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. My responsibility is to express an opinion on these consolidated and separate 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 consolidated and separate financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separated 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.
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 consolidated and separate financial statements present fairly, in all material respects, the financial position of the municipality and its entities as at 30 June 2013, and their financial performance and cash flow for the year then ended in accordance with SA Standards 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.

Significant uncertainties

8. As disclosed in note 55 to the consolidated financial statements, the municipality and its entities are the defendants in a number of legal claims. 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

9. As disclosed in note 47 to the consolidated financial statements, the corresponding figures for 30 June 2012 have been restated as a result of various errors discovered during the year ended 30 June 2013.

Material losses

10. As disclosed in note 60 to the consolidated financial statements, material losses amounting to R404 550 339 (2012: R389 334 506) were incurred as a result of water distribution losses, which represent 22,7% (2012: 24,2%) of total water available for sale. The total technical losses of water amounted to R312 482 476 (2012: R302 883 311). Non-technical losses amounted to R92 067 863 (2012: R86 451 195) and are due to burst pipes, non-metering of water and unauthorised consumption.
11. As disclosed in note 61 to the consolidated financial statements, material losses amounting to R622 720 993 (2012: R651 130 111) were incurred as a result of electricity distribution losses which represent 11,03% (2012: 12,11%) of total electricity available for sale. The total technical losses of electricity amounted to R395 199 179 (2012: R322 607 817). Non-technical losses amounted to R227 521 814 (2012: R328 522 294) and are due to theft, tampering and faulty meters.

Material impairment

12. As disclosed in note 22 to the consolidated financial statements, receivables have been significantly impaired. The impairment of receivables amounts to R3 741 379 797 (2012: R2 945 403 331) which represent 53% (2012: 50%) of consumer debtors. The contribution to provision for debt impairment was R795 976 466 (2012: R711 479 414).

Additional Matters

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

Unaudited supplementary schedules

14. The supplementary information set out on pages xx to xx does not form part of the consolidated 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

15. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages XX to XX of the annual report.
17. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

18. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Additional matters

19. Although no material findings concerning the usefulness and reliability of the performance information were identified in the annual performance report, I draw attention to the following matters below.

Achievement of planned targets

20. Of the total number of 40 targets planned for the year for the municipality, nine targets were not achieved during the year under review. This represents 23% of total planned targets that were not achieved during the year under review. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process.

Material adjustments to the annual performance report

21. Material audit adjustments in the annual performance report were identified during the audit, all of which were corrected by management.

Compliance with laws and regulations

22. I performed procedures to obtain evidence that the municipality and its municipal entities has 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:

Budget

23. Expenditure was incurred 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.

24. The total unforeseen and unavoidable expenditure incurred exceeded R15 million in contraventions of Municipal Budget and Reporting Regulation 72.

Annual financial statements

25. The consolidated financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements in the revenue, receivables, property, plant and equipment, intangibles, unspent conditional grant, cash flow statement and disclosure notes for the municipality, identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

26. Contracts and quotations were awarded by the municipality to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by National Treasury's Municipal Supply Chain Management regulation (SCM regulation)13(c).
27. Awards were made to providers who are in the service of the municipality in contravention of section 112(j) of the MFMA and SCM regulations 44. Furthermore the provider failed to declare that he/she was in the service of the municipality, as required by SCM regulation 13(c) and regulation 46(2)(e) and the code of conduct for staff members issued in terms of the Municipal Systems Act, 2000 (Act No 32 of 2000) (MSA).
28. Awards were made by the municipality to providers who are in the service of other state institutions or whose directors/ principal shareholders are in the service of other state institutions, in contravention of section 112(j) of the MFMA and SCM regulations 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).
29. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM regulation 46(2)(e), the code of conduct for councillors issued in terms of the MSA and the code of conduct for staff members issued in terms of the MSA.

Expenditure management

30. Steps taken were not effective to fully prevent and detect unauthorised and irregular expenditure as required by section 62(1) (d) of the MFMA.

Internal control

31. I considered internal control relevant to my audit of the consolidated 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 findings on compliance with laws and regulations included in this report.

Leadership

33. Leadership did not adequately perform oversight responsibility over financial reporting as material adjustments were required on the financial statements.

Financial and performance management

34. The consolidated financial statement preparation and review process were found to be inadequate in certain instances resulting in material adjustments to the financial statements. Non compliance with laws and regulations such as the MFMA and SCM regulations could have been prevented had compliance been properly reviewed and monitored.

OTHER REPORTS

Investigations

35. In terms of the Proclamation No. R 62, dated 8 November 2010, the President of South Africa has assigned the Special Investigating Unit to investigate various issues on the state of affairs of the municipality. The investigation includes supply chain management, fraud and financial misconduct.
36. The forensic audit section of the internal audit division investigated 119 cases of which 23 cases were finalised for the financial year under review. The nature of the cases covered a wide spectrum of activities including supply chain management, fraud and financial misconduct.
37. An allegation of procurement irregularity/corruption in tender process stemming from a forensic investigation report was followed up. It was concluded that there were instances of splitting of quotations involving four companies and five City of Tshwane buyers contravened section 12(3) of the MFMA Act 56 of 2003 and SCM policy by splitting quotations.
38. An investigation is being conducted relating to the supply chain management process followed by the City of Tshwane during the appointment of a panel of financial and legal advisors for revenue enhancement. The investigation was still ongoing at the reporting date.

Agreed upon procedures

39. As requested by the municipality, agreed upon procedure engagements were conducted during the year under review concerning the first and second issue of R2 140 000 000 notes under the Domestic Medium Term Note Programme. The reports covered the period July 2012 to April 2013 and were issued on 3 April 2013 and 5 June 2013 and no exceptions were reported in terms of the agreed upon procedure reports issued.

Auditor-General

Johannesburg

13 December 2013



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SOUTH AFRICA

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