

# Report of the auditor-general to the Gauteng Provincial Legislature and the Council on the City of Tshwane Metropolitan Municipality

## Report on the consolidated and separate financial statements

### Introduction

1. I have audited the consolidated and separate financial statements of the City of Tshwane Metropolitan Municipality (municipality) and its subsidiaries set out on pages ... to ..., which comprise the consolidated and separate statement of financial position as at 30 June 2014, the consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts 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 consolidated and separate 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 Standard of Generally Recognised Accounting Practice (SA Standard of GRAP), the Division of Revenue Act (DoRA) 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 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 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.

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 City of Tshwane Metropolitan Municipality and its subsidiaries as at 30 June 2014 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP, DoRA and the requirements of the MFMA.

## 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 56 to the consolidated 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

9. As disclosed in note 48 to the consolidated financial statements, the corresponding figures for 30 June 2013 have been restated as a result of various errors discovered during the year ended 30 June 2014.

## Material losses

10. As disclosed in note 61 to the consolidated financial statements, material losses amounting to R819 056 737 (2013: R622 720 993) were incurred as a result of electricity distribution losses, which represent 14,25% (2013: 11,03%) of total electricity available for sale. The total technical losses of electricity amounted to R402 343 660 (2013: R395 199 179). Non-technical losses amounted to R416 713 077 (2013: R227 521 814) and are due to theft, tampering and faulty meters.

## Material impairment

11. As disclosed in note 22 to the consolidated financial statements, receivables have been significantly impaired. The impairment of receivables amounts to R5 034 345 185 (2013: R3 741 379 797) which represent 66% (2013: 54%) of consumer debtors, while contribution to provision for doubtful debts for the year under review amounted to R1 160 951 565 (2013: R810 832 622).

## Additional matters

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

## Unaudited supplementary schedules

13. The supplementary information set out on pages XX to XX does not form part of the consolidated and separate financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

## Unaudited disclosure notes

14. 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 consolidated and separate financial statements 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 the reported performance against predetermined objectives for selected development priorities presented in the annual performance report, compliance with legislation as well as 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

16. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2014:
  - Development priority 1: Provide sustainable service infrastructure and human settlement management, on pages XX – XX.
  - Development priority 3: Ensure sustainable, safer cities and integrated social development, on pages XX – XX.
17. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
18. I evaluated the usefulness of the reported performance information to determine whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. 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).

19. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
20. The material findings in respect of the selected development priorities are as follows:

### Development priority 1: Provide sustainable service infrastructure and human settlement management

#### Usefulness of reported performance information

21. I did not raise any material findings on the usefulness of the reported performance information for development priority 1: Provide sustainable service infrastructure and human settlement management.

#### Reliability of reported performance information

22. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Overall, significantly important targets were not reliable because I was unable to obtain sufficient appropriate audit evidence. The auditee's records did not permit the application of alternative audit procedures for these significantly important targets. In addition, significantly important targets were not valid, accurate and complete when compared to the source information or evidence provided. This was due to a lack of standard operating procedures for the accurate recording of actual achievements and a lack of frequent review of the validity of reported achievements against source documentation.

### Development priority 3: Ensure sustainable, safer cities and integrated social development

#### Usefulness of reported performance information

23. I did not raise any material findings on the usefulness of the reported performance information for development priority 3: Ensure sustainable, safer cities and integrated social development.

#### Reliability of reported performance information

24. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to a lack of standard operating procedures for the accurate recording of actual achievements and a lack of frequent review of the validity of reported achievements against source documentation.

## Additional matters

25. I draw attention to the following matters:

## Achievement of planned targets

26. Refer to the annual performance report on pages XX to XX for information on the achievement of 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 paragraphs 20 to 24 of this report.

## Adjustment of material misstatements

27. I identified material misstatements in the annual performance report submitted for auditing of the reported performance information for development priority 1: Provide sustainable service infrastructure and human settlement management; and development priority 3: Ensure sustainable, safer cities and integrated social development. As management subsequently corrected only some of the misstatements, I raised material findings on the reliability of the reported performance information.

## Compliance with legislation

28. I performed procedures to obtain evidence that the municipality and its municipal entities had complied with applicable legislation regarding financial matters, financial management and other related matters.

29. My findings on material non-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

30. The consolidated and separate 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 of non-current assets, revenue and irregular expenditure identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided, resulting in the financial statements receiving an unqualified audit opinion.

## Procurement and contract management

31. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by supply chain management (SCM) regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).

32. Construction contracts were awarded to contractors that did not qualify for the contract, in accordance with Construction Industry Development Board regulation 17.

33. Awards were made 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 regulation 44.

34. Persons in the service of the municipality who 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 Municipal Systems Act (MSA) and the code of conduct for staff members issued in terms of the MSA.
35. 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.

## Asset management

36. The internal controls implemented by the accounting officer were not effective to ensure that the municipality maintained an adequate asset register, as required by section 63(2)(c) of the MFMA.

## Expenditure management

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

## Budget

39. 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.

## Internal control

40. I considered internal control relevant to my audit of the consolidated and separate 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 non-compliance with legislation included in this report.

## Leadership

41. The municipality and its subsidiaries did not adequately perform oversight of financial reporting, resulting in material adjustments required to the financial statements and findings on reliability of performance information and non-compliance with the MFMA and SCM legislation.
42. The municipality and its subsidiaries developed a plan to address audit findings, but adherence to the plan on key items such as procurement and contract management and performance reporting was not monitored on a timely basis by the appropriate level of management, resulting in a number of findings relating to assets, performance information and non-compliance with the MFMA and SCM regulations.

## Financial and performance management

43. The preparation and review processes for financial and performance reporting were inadequate in certain instances, resulting in material adjustments to the consolidated financial statements and reported performance information. The weaknesses in these processes also resulted in findings on the reliability of the reported performance information.

## Governance

44. Oversight bodies did not promote accountability and recommend corrective action effectively. Monitoring of the internal control environment, including financial and performance reporting and compliance with legislation, was not effective to prevent findings relating to assets, performance information and compliance with the MFMA and SCM regulations.

## Other reports

### Investigations

45. During the financial year, 304 (2013: 124) investigations were conducted by the internal audit unit. Of these, 119 (2013: 83) investigations were finalised and 185 were at the field work stage. Circumstances that resulted in investigations pertained mainly to non-compliance with the SCM regulations, fraud and financial misconduct.

*Auditor-General*

Johannesburg

12 December 2014



AUDITOR - GENERAL  
SOUTH AFRICA

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