

Report of the auditor-general to the Gauteng Provincial Legislature and the Council on 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 and its municipal entities as set out on pages xx to xx, which comprise the consolidated and separate statement of financial position as at 30 June 2015, 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 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, 2014 (Act No. 10 of 2014) (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 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 municipality'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 municipality'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 consolidated and separate financial position of the City of Tshwane Metropolitan Municipality and its municipal entities as at 30 June 2015 and its consolidated and separate financial performance and cash flows 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. With reference to note 55 to the consolidated financial statements, the municipality was the defendant in a number of legal cases. The ultimate outcome of these matters could not be determined at the time of this report, and no provision for any liability that might result was 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 2014 were restated as a result of errors discovered in the financial statements during the year ended 30 June 2015.

Material losses

10. As disclosed in note 60 to the consolidated and separate financial statements, material losses amounting to R973 512 190 (2013-14: R819 056 737) were incurred as a result of electricity distribution losses, which represents 16,05% (2013-14: 14,25%) of total electricity purchased. The total technical losses of electricity amounted to R424 584 756 (2013-14: R402 343 660). Non-technical losses amounted to R548 927 434 (2013-14: R416 713 077) and were due to unauthorised consumption, tampering and faulty meters.

Expenditure incurred on the smart prepaid meter contract

11. As disclosed in note 45 to the consolidated and separate financial statements, the municipality incurred service fee expenditure of R808 333 532 on the smart prepaid meter contract for the year ended 30 June 2015 (2013 -14: R177 557 908).

Material impairments

12. As disclosed in note 22 to the consolidated financial statements, receivables have significantly been impaired. The impairment of receivables amounts to R5 664 049 393 (2014: R5 034 345 185), which represents 69% (2014: 66%) of debtors and the contribution to the provision for doubtful debts for the year under review amounted to R842 780 280 (2014: R1 272 836 856).

Additional matters

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

Unaudited supplementary information

14. 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

15. 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

16. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected objectives 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

17. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2015:
 - Strategic objective 1: Provide sustainable services infrastructure and human settlements management on pages x to x
 - Strategic objective 2: Promote shared economic development and growth on pages x to x
 - Strategic objective 3: Ensure sustainable, safer cities and integrated social development on pages x to x

18. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
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 objectives. 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 findings in respect of the selected objectives are as follows:

Strategic objective 1: Provide sustainable services infrastructure and human settlements management

Reliability of reported performance information

22. The FMPPi requires municipalities 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, some significantly important targets were not reliable as I was unable to obtain sufficient appropriate audit evidence. The auditee's records did not permit the application of alternative audit procedures. This was due to ineffective standard operating procedures for the accurate recording of actual achievements.

Strategic objective 2: Promote shared economic development and growth

Reliability of reported performance information

23. The FMPPi requires municipalities 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, some significantly important targets were not reliable as I was unable to obtain sufficient appropriate audit evidence. The auditee's records did not permit the application of alternative audit procedures. This was due to ineffective standard operating procedures for the accurate recording of actual achievements and a lack of adequate reviews on the validity of reported achievements against source documentation.

Strategic objective 3: Ensure sustainable, safer cities and integrated social development

Reliability of reported performance information

24. The FMPPi requires municipalities 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, some significantly important targets were not reliable as I was unable to obtain sufficient appropriate audit evidence. The auditee's records did not permit the application of alternative audit procedures. This was due to ineffective standard operating procedures for the accurate recording of actual achievements and a lack of adequate 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 page(s) x to x and x to x 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 for the selected objectives reported in paragraph(s) x to xx of this report.

Adjustment of material misstatements

27. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for the following selected objectives:
- Strategic objective 1: Provide sustainable services infrastructure and human settlements management
 - Strategic objective 2: Promote shared economic development and growth
 - Strategic objective 3: Ensure sustainable, safer cities and integrated social development

As management subsequently corrected only some of the misstatements, I identified material findings on the reliability of the reported performance information.

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:

Strategic planning and performance management

29. The controls relating to the performance management system were inadequate in some instances as it did not fully represent the processes of timely performance monitoring and review and how it is conducted, organised and managed, including determining the roles of different role players as required by section 38 of the Municipal Systems Act of

South Africa, 2000 (Act No.32 of 2000) and regulation 7 of the *Municipal planning and performance management regulation*.

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 of the MFMA. Material misstatements on non-current assets were identified in the submitted financial statements of which some were subsequently corrected and supporting records subsequently provided.

Procurement and contract management

31. Sufficient appropriate audit evidence could not be obtained that some contracts were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive, as some contracts were not submitted for auditing.
32. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days, as required by Supply Chain Management (SCM) regulation 22(1) and 22(2) for some of the contracts.
33. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a) for some of the contracts.

Expenditure management

34. Steps taken were not effective to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Asset management

35. Controls implemented by the accounting officer were not adequate and effective to ensure that the municipality maintained a system of internal control of the asset register, as required by section 63 (2)(c) of the MFMA.

Internal control

36. 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 the findings on compliance with legislation included in this report.

Leadership

37. The accounting officer and senior management did not adequately perform oversight responsibility of financial and performance reporting resulting in material adjustments required on the financial statements, findings on reliability of performance information and non-compliance with MFMA and SCM regulations.

38. The municipality 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 effectively by the appropriate level of management, this resulted, in a number of findings relating to assets, performance information and non-compliance with MFMA and SCM regulations.

Financial and performance management

39. The financial statements and annual performance report preparation and review process were inadequate in certain instances, resulting in material adjustments to the financial statements and findings on the reliability of performance information.

Other reports

Investigations

40. The Public Protector is investigating the smart prepaid meter contract. The investigation was initiated based on an allegation of the possible misappropriation of the municipality's assets. At the time of the report, the outcome of the investigation was unknown.

Auditor-General

Johannesburg

27 January 2016



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SOUTH AFRICA

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