

REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE AND THE COUNCIL ON POLOKWANE LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Polokwane Local Municipality, which comprise the statement of financial position as at 30 June 2011, the 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 xx to xx.

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 for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

1. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
2. 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 financial statements are free from material misstatement.
3. 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.
4. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion

Basis for qualified opinion

Investment property

5. Standards of Generally Recognised Accounting Practice, GRAP 16, *Investment property*, requires property held to earn rentals or for capital appreciation to be recognised as investment property. The municipality has incorrectly recognised investment property as property, plant and equipment. Because of the inadequate information in the asset register, I was unable to confirm or verify by alternative means the value of the investment property classified as property, plant and equipment. Consequently, I was unable to determine the effect on investment property and property, plant and equipment included in the financial statements.

Property, plant and equipment

6. I was unable to verify the completeness of land and buildings as I could not trace the assets to the general ledger. The municipality did not perform a reconciliation between the underlying accounting records and the general ledger to ensure that land and buildings were completely recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of land and buildings stated at R1,9 billion in the financial statements.
7. The municipality applies the revaluation model for subsequent measurement of land and buildings. However, the municipality did not assess whether there were any changes in the fair value of land and buildings which require a further revaluation in accordance with Standard of Generally Recognised Accounting Practice, GRAP 17, *Property, plant and equipment*. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself that the fair value of a revalued asset did not differ materially from its carrying amount.
8. South African Statement of Generally Accepted Accounting Practice, IAS 36, *Impairment of assets* and International Public Sector Accounting Standards, IPSAS 21, *Impairment of non-cash generating assets* require that a municipality assess at each reporting date whether there is any indication that an asset may be impaired. No supporting documentation was available for assessment of impairment. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself that there is no indication that assets should not have been impaired.

Consumer debtors

9. Included in consumer debtors of R193,5 million, as disclosed in note 12 to the financial statements, are a net credit balance of R18,8 million and a debit balance of R7,6 million, representing suspense accounts. The municipality's records did not permit the application of alternative audit procedures regarding the suspense accounts. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the valuation, allocation of and obligations and rights pertaining to the suspense account balances.

Qualified opinion

10. In my opinion, except for the possible effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Polokwane Local Municipality as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with the SA standards of GRAP and in the manner required by the MFMA.

Emphasis of matters

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

Restatement of corresponding figures

11. As disclosed in note 28 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of errors discovered during 2011 in the financial statements of the Polokwane Local Municipality at, and for the year ended, 30 June 2010.

Irregular expenditure

12. As disclosed in note 35.3 to the financial statements, the municipality incurred irregular expenditure of R14 million as a result of non-compliance with the supply chain management (SCM) regulations.

Additional matter

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

Unaudited supplementary schedules

13. 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 these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

14. 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 XX to XX and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

Reliability of information

15. The reported performance information was deficient in respect of the following criteria:
- Completeness: All indicators and targets that should have been recorded have not been included in the integrated development plan.
16. The following audit finding relate to the above criteria:
- The integrated development plan did not include the key performance indicators and performance targets determined in accordance with its performance management system, as required by sections 26(i) and 41(1)(b) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001. The municipality included the indicators and targets in the service delivery and budget implementation plan.

Compliance with laws and regulations

Strategic planning and performance management

17. The municipality did not enter into a service delivery agreement with its municipal entity, Thabatsweu Housing Company (Pty) Ltd, trading as Polokwane Housing Association for the provision of the municipal housing service as required by section 76(b) of the MSA, read with regulation 9(2)(b)(ii) of the Municipal Planning and Performance Management Regulations.

Budgets

18. The municipality exceeded its budget by R89,8 million as a result of non-cash transactions such as depreciation and bad debt provision, in contravention of section 15 of the MFMA.

Annual financial statements, performance and annual reports

19. 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 inventory, provisions, receivables, revaluation reserve, property, plant and equipment, and disclosure items identified by the auditors were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.
20. The mayor did not table in council the 2009-10 annual report of the municipality and of the municipal entity under its sole control, within seven months after the end of the financial year as required by section 127(2) of the MFMA. The mayor did submit to the council a written explanation setting out the reasons for the delay.
21. The accounting officer did not make public the council's oversight report on the 2009-10 annual report within seven days of its adoption, as required by section 129(3) of the MFMA.

Procurement and contract management

22. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers, as per the requirements of SCM regulation 17(a) and (c).
23. Goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as per the requirements of SCM regulation 19(a) and 36(1).

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

25. Awards were made 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

26. Money owing 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.

27. The accounting officer did not take reasonable steps to prevent unauthorised expenditure and irregular expenditure, as required by section 62(1)(d) of the MFMA.

Asset management

28. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of internal control for assets (including an asset register), as required by section 63(2)(c) of the MFMA.

INTERNAL CONTROL

29. 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 basis for qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

• Leadership

The accounting officer and management did not in all instances exercise sufficient oversight responsibility over compliance with laws and regulations.

The Polokwane Local Municipality does not exercise oversight responsibility over its municipal entity to ensure that a service delivery agreement exists with its entity.

• Financial and performance management

Pertinent financial information is not adequately identified and assessed in compiling a credible budget, which resulted in the municipality exceeding the total budget.

The financial statements had not adequately been reviewed for completeness and accuracy by the chief financial officer.

Employees tasked to prepare financial statements do not in all instances have the necessary competency to understand the financial reporting framework.

Periodic reconciliations of all accounts are not performed to ensure that transactions have occurred and are completely and accurately processed.

Improper filing of financial documentation resulted in documentation not being provided.

• Governance

Internal audit did not fulfil its responsibilities in all instances by auditing the procurement of goods and services, asset reconciliations and suspense accounts as part of its internal audit processes.

Management has not taken actions to address the risks relating to the suspense accounts.

OTHER REPORTS

Investigations

Investigations completed during the financial year

30. Investigations were conducted into alleged fraud, theft and corruption at three business units within the municipality. The investigations were completed and the accounting officer is assessing the recommendations.
31. An investigation was conducted by an independent service provider at the request of the municipality. The investigation was initiated based on allegations of illegal land development and use. The investigation was completed and disciplinary procedures were instituted against employees, while the implementation of some recommendations was still ongoing at the reporting date.

Robert General

Pretoria

30 November 2011



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

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Auditor - General

Step 5: Representation by Corporate Executive (P. Adawone)

Based on the representations stated above, except as documented below, I support the auditor's opinion expressed.

Comments by CE

No changes to audit opinion.

Recommended amendments to Auditor's Report	Reasons
None.	

Signed by:

P. Adawone
Corporate Executive

20/11/2011
Date