

# **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 financial statements of the Polokwane Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information 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 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 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 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 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 financial statements are free from material misstatement.
4. 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 municipality'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 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 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 financial statements present fairly, in all material respects, the financial position of the Polokwane Local Municipality as at 30 June 2015 and its 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

## Restatement of corresponding figures

8. As disclosed in note 29 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of an error discovered during 2015 in the financial statements of the Polokwane Local Municipality at, and for the year ended, 30 June 2014.

## Material losses

9. As disclosed in note 40 to the financial statements, material losses to the amount of R120 964 077 were incurred as a result of water and electricity distribution losses.

## Material impairments

10. As disclosed in note 12 to the financial statements, material impairments to the amount of R408 535 232 was raised to provide for of irrecoverable trade debtors as a result of doubt over the collectability of the long outstanding consumer debts.

## Material underspending

11. As disclosed in the statement of comparison of budget and actual amounts, the municipality has materially underspent on its capital budget to the amount of R179 106 210. As a consequence, the municipality has not achieved all of its objectives. Included in this amount is the unspent portion of the Municipal Infrastructure Grant (MIG) of R133 711 394 as disclosed in note 7 to the financial statements.

## Unauthorised expenditure

12. As disclosed in note 34.1 to the financial statements, the municipality incurred R519 041 770 in unauthorised expenditure as expenditure was incurred in excess of the limits of the amounts provided for the approved budget

## Significant uncertainties

13. With reference to note 33 to the financial statements, the entity is currently involved in litigation with service providers, employees and third parties. The ultimate outcome of the matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.



## Irregular expenditure

14. As disclosed in note 34.3 to the financial statements, the municipality incurred irregular expenditure of R297 567 685 in contravention of the *Municipal Supply Chain Management Regulations (MSCMR)*.

## Additional matters

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

## Unaudited supplementary schedules

16. 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 this and, accordingly, I do not express an opinion thereon.

## Report on other legal and regulatory requirements

17. 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

18. 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:
- KPA 1: Basic service delivery on pages x to x
19. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
20. 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 development priority. 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)*.
21. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
22. The material findings in respect of the selected development priority are as follows:



## **KPA 1: Basic service delivery**

### Usefulness of reported performance information

23. I did not identify material findings on the usefulness of the reported performance information.

### 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 monitoring of the completeness of source documentation in support of actual achievements and 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 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 usefulness and reliability of the reported performance information for the selected development priority reported in paragraph 22 of this report.

### Unaudited supplementary schedules

27. The supplementary information set out on pages xx to xx does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

## **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 Key Performance Indicators ( KPIs) set by the municipality did not include indicators on percentage of households with access to basic level of water, sanitation electricity and solid waste removal were not set by the municipality as required by section 43(2) of the MSA and the *Municipal planning and performance management regulation* 10(a).



## Annual financial statements, performance and annual reports

30. 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 non-current assets, current assets, liabilities, and revenue and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

## Unauthorised, irregular and fruitless and wasteful expenditure

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

## Conditional grants

32. The Public Transport Infrastructure Grant allocation was not spent in accordance with the applicable grant framework, in contravention of section 17(1) of the DoRA.

## Procurement and contract management

33. Awards were made to providers who are in the service of other state institutions in contravention of MFMA 112(j) 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).
34. 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)
35. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.

## Internal control

36. I considered internal control relevant to my audit of the 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. Although the accounting officer reviewed the financial statements and the annual performance plan with the assistance of internal audit and the audit committee prior to their submission for audit, a number of material misstatements were again identified. There is again a gap in the quality of the review of the annual financial statements submitted for audit.
38. Although numerous instances of irregular expenditure were disclosed, the main driver for such emanated from management override of controls leading up to numerous



allegations and investigations of senior municipal officials. A lack of follow up and implementing consequences for the irregular expenditure in the prior year, resulted in additional irregular expenditure during the current year.

## **Financial and performance management**

39. Management did not implement the adequate daily, monthly and year-end controls as designed for the municipality's business processes to ensure accurate processing of information due to inadequate capacity at an operational level.
40. Compliance with applicable laws and regulations was not properly monitored to ensure that the municipality complies with all the legislated requirements due to inadequate knowledge of the legislation.

## **Governance**

41. The internal audit unit did not conduct adequate internal audits or reviews of performance information and compliance with laws and regulations due to capacity constraints. Furthermore from the reviews that were conducted not all recommendations were timeously implemented by management.

## **Other reports**

## **Investigations**

42. An independent consulting firm performed an investigation at the request of the municipality, which covers the period 30 June 2013 to 30 June 2015. The investigation was initiated based on an allegation of misconduct against the municipal manager. The outcome of the investigation was finalised in June 2015 with the matter settled out of court following a council resolution.
43. National Treasury performed an investigation at the request of the municipality, which covers the period 30 June 2013 to 30 June 2015. The investigation was initiated based on an allegation of the possible non-compliance with the Treasury norms and standards during the bidding process. The investigation was finalised on 6 August 2015 with the final findings that resulting in the awarded bids being declared irregular expenditure and from which the municipality was obligated to undertake the necessary consequence management processes against the implicated officials.

*T. Ndlovu - General*

Polokwane

30 November 2015



AUDITOR-GENERAL  
SOUTH AFRICA

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