

Report of the auditor-general to the Limpopo provincial legislature and the council of the Thabazimbi Local Municipality

Report on the financial statements

Introduction

1. I was engaged to audit the financial statements of the Thabazimbi Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the 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 the financial statements based on conducting the audit in accordance with International Standards on Auditing. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis of disclaimer opinion

Property, plant and equipment

4. The municipality did not recognise all assets defined as work in progress. The effect on the financial statement was that property, plant and equipment were understated by R7 238 042 (2014: R6 857 681). Additionally, there was a resultant impact on the surplus for the period and the accumulated surplus.

5. The municipality did not recognise all items of land in accordance with SA Standards of GRAP 17: *Property, plant and equipment*. Land belonging to the municipality amounting to R13 674 800 per the valuation roll, was not included in the asset register. Consequently, property, plant and equipment were understated by R13 674 800.
6. I was unable to obtain sufficient appropriate audit evidence regarding the existence of property, plant and equipment that the municipality recorded in the financial statements. I was unable to confirm these physical assets by alternative means. Consequently, I was unable to determine whether any adjustment to property, plant and equipment stated at R853 185 191 in note 4 to the financial statements, was necessary.
7. I identified differences to the amount of R113 926 574 between what was recorded and my recalculation of depreciation using depreciation rates per the accounting policy. Consequently, property plant and equipment were overstated and depreciation understated by R113 926 574. Additionally, there was resultant impact on the accumulated surplus.
8. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figures for property, plant and equipment. As described in note xx to the financial statements, the restatement was made to rectify a prior year misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment to property, plant and equipment stated at R853 185 191, was necessary.
9. I was unable to obtain sufficient appropriate audit evidence regarding assets that were attached by creditors., No adjustment was made to the figure for property, plant and equipment in the financial statements, therefore I was unable to conclude on the correctness of the carrying value of the assets at year end of R853 185 191.

Revenue and receivables

10. I was unable to obtain sufficient appropriate audit evidence that management has correctly charged consumers for all water and electricity supplied and accounted for all revenue from water and electricity transactions for the current year. Meter readings were not consistently done on a monthly basis which resulted in consumers not being billed for a period exceeding one month. I was unable to confirm revenue from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment to consumer debtors stated at R60 246 397(2014: R73 602 581) and revenue from exchange transactions stated at R120 629 592 (2014: R92 068 703) in the financial statements were necessary.
11. I was unable to obtain sufficient appropriate audit evidence of how revenue from sewerage charges was calculated, no explanation could be provided or supporting documents submitted, for the sewerage charge calculation. Consequently, I was unable to determine whether the amount as stated at R24 507 414 and consumer debtors at R60 246 397 is correct.
12. I identified differences amounting to R5 191 057 between the amount reported for property rates and my recalculation in terms of the 2014-2015 tariff book of the municipality. Consequently, property rates were overstated and receivables overstated by R5 191 057. Additionally, there was resultant impact on the accumulated surplus.

13. I was unable to obtain sufficient appropriate audit evidence regarding an amount of R4 050 000 disclosed as electrification grant in note 21 to the financial statements. The municipality could not provide supporting documents for the amount disclosed. Consequently, I was unable to determine whether the amount as stated at R75 497 353 (2014:R72 470 015) is correct.

Employee cost

14. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for employee cost. As described in note 34 to the financial statements, the restatement was made to rectify a prior year misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment to the employee cost corresponding figure stated at R100 567 218 in the financial statements was necessary.

Unspent grants

15. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for unspent grants. As described in note 13 to the financial statements, the restatement was made to rectify a prior year misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment to the unspent grants' corresponding figure stated at R4 196 000 in the financial statements was necessary.

Statement of changes in net assets

16. I was unable to obtain sufficient appropriate audit evidence for the difference of R137 440 341 between the total of the accumulated surplus account as per the statement of changes in net assets and the recalculated amounts in the same account. Consequently, I was unable to determine whether any adjustment to the accumulated surplus account in the statement of changes in net assets was necessary.

Payables

17. The municipality did not recognise all outstanding amounts that meet the definition of a liability, in accordance with SA Standards of GRAP 1: *Presentation of financial statements*. As the municipality did not maintain adequate records of finalised unfavourable judgement against the municipality at yearend, I was not able to determine the full extent of the understatement of payables and accruals as it was impracticable to do so.
18. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for accruals. As described in note 34 to the financial statements, the restatement was made to rectify a prior year misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment to the payables corresponding figure stated at R274 787 721 in the financial statements was necessary.

Provisions

19. I was unable to obtain sufficient appropriate audit evidence regarding the difference of R3 363 224 between the recalculated closing balance and the amount disclosed. The municipality could not provide supporting documents for the amount disclosed. Consequently I was unable to determine whether amount as stated at R34 777 868 is correct.

Cash flow statement

20. GRAP 2, Cash flow statements, requires that the municipality summarises the entity's operating, investing and financing activities. The municipality did not prepare and present its cash flow statement in accordance with GRAP 2, Cash flow statements. Consequently, the cash flow statement was not properly prepared and presented as a result of the following:

- Cash flows from operating activities included non-cash items amounting to R6 663 475(2014:R13 865 000)
- Cash flows from investing activities included non-cash items amounting to R22 478 037.
- The cash flows from financing activities included non-cash items amounting to R15 814 562.

Contingent liabilities

21. I was unable to obtain sufficient appropriate audit evidence for contingent liabilities as the municipality did not have an adequate system of internal control in place to record all litigations and claims on which I could rely on for the purpose of my audit. I further identified a difference amounting to R28 132 545 between the underlying records and the amount disclosed in note 34 to the financial statements. I could not confirm whether all contingent liabilities were recorded by alternative means. Consequently, I was unable to determine whether any adjustment to contingent liabilities in note 38 to the financial statements were necessary.
22. The municipality did not disclose the comparative figure of contingent liability in the financial statement, in accordance with SA Standards of GRAP 1: *Presentation of financial statements*. As there were inadequate records of litigations and claims against the municipality at prior period end, I was not able to determine the full extent of the understatement of disclosure note as it was impracticable to do so.
23. I was unable to obtain sufficient appropriate audit evidence regarding the figure of R5 766 901 disclosed in the financial statements as contingent liability. The municipality could not provide supporting documents for the amount disclosed. Consequently, I was unable to determine whether amount as stated at R56 573 940 is correct.

Commitments

24. The municipality did not have adequate systems to maintain records of commitments at year end. This resulted in commitments being understated by R38 409 497. I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as commitments in note 33 to the financial statements. I could not confirm commitments by alternative means. Consequently, I was unable to determine whether any further

adjustment to commitments stated at R58 131 343 in financial statements was necessary.

25. I was unable to obtain sufficient appropriate audit evidence regarding other figures disclosed as commitments as the municipality could not provide supporting documents for the amount disclosed. Consequently, I was unable to determine whether amount as stated at R58 131 343 is correct.
26. The municipality did not account for all items commitment in accordance with SA GRAP Framework. Consequently I was unable to determine whether all value of understatement of the commitment amount as disclosed on note 33.

Statement of comparison of budget and actual amounts

27. SA Standards of GRAP 24: *Presentation of budget information in financial statements* requires that the municipality present separately, by way of a note disclosure, an explanation of material differences between the budgets for which the entity is held publicly accountable and actual amounts. The municipality did not present explanation for material differences between budget and actual amounts as required by SA Standards of GRAP 24.

Prior period error

28. SA Standards of GRAP 3: *Accounting policies, change in accounting estimates and errors* requires material prior period errors to be corrected retrospectively by restating the comparative amounts for the periods in which the error occurred. By disclosing the nature of the prior period error, the amount, and the financial line item affected. The municipality's disclosure in note 34 to the financial statements does not include all prior error misstatement disclosure in terms of the SA Standards of GRAP 3.

Irregular expenditure

29. I was unable to obtain sufficient appropriate audit evidence that all irregular expenditure incurred by the municipality in the current year has been recorded. Due to a lack of an appropriate procurement system, I was unable to confirm whether all disclosure of irregular expenditure was made. I was unable to confirm the irregular expenditure by alternative means. Consequently, I was unable to determine whether any adjustments to irregular expenditure stated at R35 393 579 was necessary.
30. The municipality could not provide tender files and other supporting documents for contracts awarded. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that contracts were awarded in accordance with *Supply Chain Management regulations* (SCM regulations). Consequently, I was unable to determine whether any adjustments to the irregular expenditure as disclosed in note 42 to the financial statements were necessary.

Unauthorised expenditure

31. I identified a difference amounting to R37 790 468 between the amount disclosed in note 40 to the financial statements and my recalculation. Consequently, the balance disclosed for unauthorised expenditure at R 349 167 935 as disclosed in the financial statements is understated.

Aggregation immaterial uncorrected misstatements

32. The financial statements were materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following items making up the statement of financial position and the statement of financial performance and the notes to the financial statements:

- VAT receivable reflected as R7 336 204 was overstated by R1 944 000
- I could not be provided with sufficient audit evidence to substantiate the amount for work in progress of R1 375 749 which is reflected at R117 776 092.
- Biological assets reflected as R879 600 could not be verified.
- Interest received from exchange transaction reflected as R11 851 961 was overstated by R890 816
- Payables an reflected as R274 787 721 was overstated by R1 373 548
- Other income reflected as R3 752 206 was overstated by R823 500

Opinion

33. Because of the significance of the matters described in the basis for the disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly I do not express an opinion on the financial statements

Emphasis of matters

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

Financial sustainability concerns

35. Note 38 to the financial statements indicates that the municipality incurred a net loss of R96 502 599 for the year ended 30 June 2015 and, as of that date, the municipality's current liabilities exceeded its current assets by R205 137 862. These conditions, along with other matters as set forth in note 38 to the financial statements, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

Material impairments

36. As disclosed in note 46 to the financial statements, the municipality made material impairments to the amount of R40 491 620 for receivables, as a result of inadequate collection practises.

Material electricity and water loss

37. As disclosed in note 43 to the financial statements, the municipality's electricity losses and water losses amounts to 25% and 42%, compared to the maximum acceptable percentage loss of 10% and 30% respectively. The municipality is faced with deteriorating electricity and water infrastructure and poor management of electrical networks due to amongst others, illegal connections.

Significant uncertainties

38. With reference to note 34 to the financial statements, the municipality is a defendant in various legal claims. The municipality is opposing the claims amounting to R56 573 940 as it believes it has reasonable grounds to defend each claim. The outcome of the legal claims cannot be determined presently.

Subsequent events

39. Subsequent to year end, as disclosed in note 39 to the financial statements, the assets of the municipality were attached by creditors following a court ruling.

Additional matters

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

Withdrawal from the engagement

41. Due to the limitation imposed on the scope of the audit by management, I have disclaimed my opinion on the financial statements. But for the legislated requirement to perform the audit of municipality, I would have withdrawn from the engagement in terms of the International Standards of Audit.

Unaudited supplementary schedules

42. 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 schedule and, accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

43. 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 financial statements and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

44. 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 [development priorities/ 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

45. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development objectives presented in the annual performance report of the municipality for the year ended 30 June 2015:
- a. Development objective: Promote the well-being of all communities
 - b. Development objective: Enhance financial viability and accountability
 - c. Development objective: Resource and infrastructure management
46. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
47. 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 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).
48. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
49. The material findings in respect of the selected development objectives are as follows:

Development objective: Promote the well-being of all communities

Usefulness of reported performance information

Consistency of objectives, indicators and targets

50. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan to form the basis for the annual report, therefore

requiring consistency of objectives and targets between planning and reporting documents. A total of 100% of the reported objectives and a total 44% on reported targets were not consistent with those in the approved integrated development plan. This was due to the fact that the municipal's performance management system unit not functioning effectively to support monitor and review the performance information.

Measurability of indicators and targets

51. Performance targets should be specific in clearly identifying the nature and required level of performance as required by the FMPPI. A total of 6% of the targets were not specific.
52. Performance targets should be measurable as required by the FMPPI. We could not measure the required performance for 6% of the targets.

Relevance of indicators

53. The FMPPI requires indicators to relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives. A total of 100% of the indicators/measures did not relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives as per the five-year integrated development/service delivery and budget implementation plan. This was because of proper performance planning and management practices had not been implemented to provide for the development of performance indicators and targets included in the integrated development/service delivery and budget implementation plan.

Reliability of reported performance information

54. 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. We were unable to obtain the information and explanations we considered necessary to satisfy ourselves as to the reliability of the reported performance information. This was due to limitations placed on the scope of our work due to the fact that the auditee did not provide the reported information for audit.

Development objective: Enhance financial viability and accountability

Consistency of objectives and targets

55. Section 41(c) of the MSA requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives and targets between planning and reporting documents. A total of 100% of the reported objectives and a total of 21% on reported targets were not consistent with those in the approved integrated development plan. This was due to the fact that the municipal's performance management system unit not functioning effectively to support, monitor and review the performance information.

Measurability of indicators and targets

56. Performance targets should be specific in clearly identifying the nature and required level of performance as required by the FMPPI. A total of 7% of the targets were not specific.
57. Performance targets should be measurable as required by the FMPPI. We could not measure the required performance for 7% of the targets

Relevance of indicators

58. The FMPPI requires indicators to relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives. A total of 100% of the indicators/measures did not relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives as per the five-year integrated development/service delivery and budget implementation plan. This was because of proper performance planning and management practices had not been implemented to provide for the development of performance indicators and targets included in the integrated development/service delivery and budget implementation plan.

Reliability of reported performance information

59. 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. We were unable to obtain the information and explanations we considered necessary to satisfy ourselves as to the reliability of the reported performance information. This was due to limitations placed on the scope of our work due to the fact that the auditee did not provide the reported information for audit.

Development objective 3: Resource management & infrastructure and for services for access & mobility.

Consistency of objectives, indicators and targets

60. Section 41(c) of the MSA requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported objectives, 67% of the reported indicators and 100% on reported targets were not consistent with those in the approved integrated development plan. This was due to the fact that the municipal's performance management system unit not functioning effectively to support monitor and review the performance information.

Measurability of indicators and targets

61. Performance indicators/measures should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. A total of 17% of the indicators were not well defined.

Relevance of indicators

62. The FMPPI requires indicators to relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives. A total of 67% of the indicators/measures did not relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives as per the five-year integrated development/service delivery and budget implementation plan. This was because of proper performance planning and management practices had not been implemented to provide for the development of performance indicators and targets included in the integrated development/service delivery and budget implementation plan.

Reliability of reported performance information

63. 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. We were unable to obtain the information and explanations we considered necessary to satisfy ourselves as to the reliability of the reported performance information. This was due to limitations placed on the scope of our work due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information.

Additional matters

64. I draw attention to the following matters; our conclusion is not modified in respect of these matters.

Achievement of planned targets

65. Refer to the annual performance report from page 7-19 for information on the achievement of planned targets for the year. This information should be considered in the context of material findings on the usefulness and reliability of the reported performance information.

Unaudited supplementary information

66. The supplementary information set out on pages x to x does not form part of the annual performance report and is presented as additional information. We have not audited these schedules and, accordingly, we do not express a conclusion thereon

Compliance with legislation

67. 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

68. The annual performance agreements for the municipal manager and all senior managers are not linked to the measurable performance objectives approved with the budget and to the service delivery budget implementation plan as required in terms of section 53(1)(c)(iii) of the MFMA and section 57(1)(b) of the MSA.
69. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance monitoring/ review/ reporting and how it is conducted, organised and managed, including determining the roles of the different role-players, as required by sections 38 of the MSA and regulation 7 of the Municipal planning and performance management regulations

Budgets

70. 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.

Annual financial statements, performance and annual reports

71. 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 identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided, which resulted in the financial statements receiving a disclaimer audit opinion.

Procurement and contract management

72. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive, as proper record keeping was not in place to ensure that complete, relevant and accurate information is accessible and available to support the procurement processes followed.
73. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value of below R200 000 were procured by means of obtaining the required price quotations, as required by SCM regulations 17(a) and (c).
74. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R500 000 were procured by means of inviting competitive bids and that deviations approved by the accounting officer were only if it was impractical to invite competitive bids, as required by SCM regulations 19(a) and 36(1).
75. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded only to bidders who submitted a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
76. Sufficient appropriate audit evidence could not be obtained that contracts were only extended or modified after tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.

77. Sufficient appropriate audit evidence could not be obtained that contract and quotations were only awarded to providers whose tax matters have been declared by the South African Revenue Service to be in order as required by SCM regulation 43.
78. A list of accredited prospective providers was not in place for procuring goods and services through quotations as required by SCM regulation 14(1)(a).
79. As a result of above, we could not determine if quotations were accepted from prospective providers who are not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of SCM regulations 16(b) and 17(b).

Human resources management

80. An acting municipal manager and CFO were appointed for a period of more than three months without the approval by the MEC for Cooperative Governance, Human Settlements and Traditional Affairs or for more than six months in contravention of sections 54A(2A) and 56(1)(c) of the MSA.
81. Job descriptions were not established for all posts in which appointments were made in the current year, in contravention of section 66(1)(b) of MSA.
82. The competencies of financial and supply chain management officials were not assessed in a timely manner in order to identify and address gaps in competency levels as required by regulation 13 of the *Municipal regulations on minimum competency levels*.

Expenditure management

83. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
84. An effective system of expenditure control, including procedures for the approval of funds, was not in place, as required by section 65(2)(a) of the MFMA.

Unauthorised, irregular and fruitless and wasteful expenditure

85. 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 grant

86. The MIG allocation was not spent in accordance with the applicable grant framework, in contravention of section 16(1) of the DoRA.

Revenue management

87. An effective system of internal control for revenue was not in place, as required by section 64(2) (f) of the MFMA.

88. A credit control and debt collection policy was implemented but not effective, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of MFMA.

Liability management

89. An adequate management, accounting and information system which accounts for liability was not in place, as required by section 63(2)(a) of the Municipal Finance Management Act

Assets management

90. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
91. An effective system of internal control for assets including an asset register was not in place, as required by section 63(2)(c) of the MFMA.

Consequence management

92. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

Internal control

93. 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 basis for disclaimer opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

94. The municipality did not have sufficient monitoring controls to ensure the proper implementation of the overall processes of reporting on predetermined objectives and compliance with legislation.
95. Management did not adequately review the financial statements and the annual performance report prior to their submission for audit and thus material misstatements were not prevented and identified at an earlier stage.

Financial and performance management

96. The financial statements and other information to be included in the annual report are not reviewed for accuracy and completeness.
97. Controls over daily and monthly processing and reconciling of transactions were not implemented
98. Compliance with laws and regulations was not reviewed and monitored.

99. There is no proper record keeping to support the financial statements and the annual performance report, consequently requested information was not submitted

Governance

100. Those charged with governance did not provide adequate oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

Other reports

Investigations

101. An independent consulting firm was performing an investigation at the request of the municipality on allegations of financial mismanagement against the municipal manager and chief financial officer. The report was finalised in October 2014. The municipal manager has since been charged and the disciplinary commission is ongoing whilst the chief financial officer resigned and the municipality indicated that criminal charges should commence once the disciplinary commission report has been tabled before council.

Auditor-General.

Polokwane

30 November 2015



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence