



AUDITOR - GENERAL
SOUTH AFRICA

The Municipal Manager
Thabazimbi Local Municipality
Private Bag X530
Thabazimbi
0380

29 November 2013

Reference: 02494REG12/13

Dear Sir

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Thabazimbi Local Municipality for the year ended 30 June 2013

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA)
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.

6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed

A handwritten signature in dark ink, appearing to read 'Sudhakar Arlagadda', written over a dotted line.

Senior Manager: Limpopo

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**REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL
LEGISLATURE AND THE COUNCIL ON 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 xx to xx, which comprise the statement of financial position as at 30 June 2013, the statements of financial performance, changes in net assets and cash flows for the year then ended, and 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 the 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), Division of Revenue Act of South Africa, 2012 (Act No. 05 of 2012) (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 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. 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 for disclaimer of opinion

Property, plant and equipment

4. The municipality could not provide supporting documents for adjustments to opening balances, additions and work in progress as disclosed in note 4 to the annual financial statements. There was no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that property, plant and equipment were recorded correctly. Consequently, I could not obtain sufficient appropriate audit evidence to satisfy myself as to whether any adjustments to the property, plant and equipment of R1 074 963 862 (2012: R1 067 270 707) as per the statement of financial position were necessary.
5. The municipality did not perform impairment assessment for all assets where there was an indication that the asset might be impaired in accordance with the SA Standards of GRAP 21, *Impairment of noncash generating assets*. Consequently, I was unable to determine whether any impairment adjustments to the Property, plant and equipment as per statement of financial position were necessary.

Statement of changes in net assets

6. The municipality could not provide a sufficient and appropriate explanation and evidence for an unreconciled difference of R135 402 077 between the accumulated surplus as reflected in the statement of changes in net assets and the statement of financial position. I was unable to confirm this difference by alternative means. Consequently, I was unable to determine whether any adjustments to the accumulated surplus and any other account balances in the financial statements was necessary.

Contingent liabilities

7. The municipality did not disclose contingent liabilities in the notes to the financial statements in accordance with the SA Standards of GRAP 19, *Provisions, contingent liabilities and contingent assets*.

There was no system of control over litigations and claims on which I could rely on for the purpose of my audit to obtain reasonable assurance that the municipality has contingent liabilities.

8. The municipality has not disclosed a contingent liability in respect of the uncertainties arising from the dispute declared by the unions and the pending litigation regarding the wage curve agreement. I could not confirm this contingent liability by alternative means.

Expenditure

9. The municipality did not correctly calculate the depreciation on property, plant and equipment for current and prior year amounting to R 54 762 517(2012: R54 155 189) as disclosed in note 30 to the financial statements. Consequently I was unable to determine whether any adjustments to the depreciation amount were necessary.
10. Included in debt impairment expenditure as disclosed in note 28 to the financial statements, is an amount of R6 226 416 for which no sufficient appropriate audit evidence could be provided by the municipality. The municipality's records did not permit the application of alternative procedures regarding this amount. Consequently I was unable to determine whether any adjustments relating to debt impairment in the financial statements were necessary.

11. There was no system of control over the classification of repairs and maintenance between operating and capital expenditure. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that repairs and maintenance were appropriately classified. Consequently, I was unable to determine whether any adjustments to the repairs and maintenance expenditure of R 18 969 425 as per statement of financial performance were necessary. Furthermore, there is a consequential impact on property, plant and equipment and accumulated surplus for the period.

Prior period errors

12. As disclosed in note 38 to the financial statements relating to prior period errors, differences were noted between my calculations and the impact of the restatements as indicated in the table below. The municipality did not disclose the prior period errors in accordance with the SA Standards of GRAP 3, *Accounting policies, changes in accounting estimates and errors*.

Description	Movements computed based on information contained in the Annual Financial Statements.	Adjustment per the statement of changes in net assets/Notes 38 to Annual Financial Statements.	Difference
Restatement to periods prior to 2012	880 640 278	178 889 617	701 750 661
Revenue - Service charges	23 763 779	23 763 779	-
Revenue - Grants and subsidies	(944 437)	-	(944 437)
Revenue - Other income	6 806 852	-	6 806 852
Revenue - Donations	(17 580 902)	(17 580 902)	-
Revenue - fair value gains due to movements in biological assets	180 035	-	180 035
Revenue - interest on investments and debtors	(4 678 251)	-	(4 678 251)
Depreciation - PPE and investment property	34 329 349	51 451 667	(17 122 318)
Employee costs - provision expenses - (movements)	1 875 334	2 987 874	(801 684)
Remuneration of councillors	310 856	-	310 856
Debt impairment	(16 328 261)	-	(16 328 261)
General expenses	(312 875)	2 206 661	(2 058 964)
	908 061 758	241 718 697	667 114 489
Consumer debtors	8 747 681	(23 763 779)	32 511 460
Trade and other receivables	(233 587)	-	(233 587)
VAT	3 533 517	2 337 117	1 196 400
Provisions	(5 464 202)	(6 521 391)	1 057 189
Inventory	76 039	76 039	-
PPE	(903 634 982)	(942 205 493)	38 570 511
Investment property	(11 067 554)	-	(11 067 554)
Operating lease liability	(22 711)	394 368	(417 079)
Trade payables	4 042	1 133 971	(1 129 929)
	(908 061 758)	(968 549 168)	60 87 410

Revenue

13. During 2012 I was unable to obtain sufficient appropriate audit evidence for property rates and service charges. I was unable to confirm the revenue by alternative means. Consequently I was unable to determine whether any adjustments to

revenue stated at R117 381 467 was necessary. My audit opinion on the financial statements for the year ended 30 June 2012 was modified accordingly. My opinion on the current period's financial statements was also modified because of the possible effect of this matter on the comparability of the current period's figures.

Disclaimer of opinion

14. Because of the significance of the matters described in the basis for 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

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

Restatement of corresponding figures

15. As disclosed in note 38 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered during 2013 in the financial statements of the municipality at, and for the year ended, 30 June 2012.

Material losses

16. As disclosed in note 46 to the financial statements, material losses to the amount of R15 429 129 and R17 615 114 were incurred as a result of water and electricity distribution respectively.

Additional matter

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

Unaudited supplementary schedules

17. 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

In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

18. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages xx to xx of the annual report.
19. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the

annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information (FMPPi)*.

20. The reliability of the information in respect of the selected development objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete)

The material findings are as follows:

Usefulness of information

Presentation

Measures taken to improve performance not disclosed

21. Section 46 of the Municipal Systems Act 2000, (Act No.32 of 2000) (MSA) requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Measures to improve performance for a total of 100% of the planned targets not achieved were not reflected in the annual performance report. This was due to the lack of review of the presentation of the annual performance report by management.

Consistency

Reported objectives not consistent with the planned objectives

22. The MSA, section 41(c) requires that the integrated development plan should 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 are not consistent with the objectives as per the approved integrated development plan. This is due to the lack of review of the reported performance information by management.

Measurability

Performance targets not specific

23. The National Treasury *FMPPi* requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 100% of the targets were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was aware of the requirements of the *FMPPi* but did not receive the necessary training to enable application of the principles.

Performance targets not measurable

24. The National Treasury *FMPPi* requires that performance targets be measurable. The required performance could not be measured for a total of 100% of the targets. This was due to the fact that management was aware of the requirements of the *FMPPi* but did not receive the necessary training to enable application of the principles

Performance targets not time bound

25. The National Treasury *FMPPI* requires that the time period or deadline for delivery be specified. A total of 100% of the targets were not time bound in specifying a time period or deadline for delivery. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not receive the necessary training to enable application of the principles.

Performance indicators not well defined

26. The National Treasury *FMPPI* requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 100% of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not receive the necessary training to enable application of the principles.

Performance Indicators not verifiable

27. The National Treasury *FMPPI* requires that it must be possible to validate the processes and systems that produce the indicator. A total of 100% of the indicators were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not receive the necessary training to enable application of the principles.

Relevance

Performance indicators not relevant

28. The National Treasury *FMPPI* requires that the indicator should relate logically and directly to an aspect of the institution's mandate, the realisation of strategic goals and objectives. A total of 100% of indicators did not relate logically and directly to an aspect of the institution's mandate and realisation of strategic goals and objectives as per the five-year integrated development plan. This was due to the lack of development and implementation of proper performance planning and management practices to provide for the development of performance indicators and targets included in the integrated development plan.

Reliability of information

29. The National Treasury *FMPPI* requires that institutions should 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. The information presented with respect to resource management infrastructure and services for easy access and mobility was not reliable when compared to the source information and evidence provided. This was due to the lack of standard operating procedures for the accurate recording of actual achievements.

Compliance with laws and regulations

30. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Strategic planning and performance management

31. The municipality did not afford the local community at least 21 days to comment on the final draft of its integrated development plan before the plan was submitted to council for adoption, as required by the Municipal Planning and Performance Management Regulation 15(3).
32. The municipality did not set key performance indicators, including input indicators, output indicators and outcome indicators, in respect of each of the development priorities and objectives set out in the IDP, as required by section 41(1)(a) of the MSA and the Municipal Planning and Performance Management Regulation 1 and 9(1)(a).
33. The performance management system of the municipality was not in line with the priorities, objectives, indicators and targets contained in its integrated development plan and did not determine the frequency of reporting and the lines of accountability for performance and did not relate to the municipality's performance management processes and did not provide for procedures by which the system is linked to the municipality's integrated development planning processes, as required by section 38(a) of the MSA.
34. The municipality did not establish a performance management system, as required by section 38(a) of the MSA.
35. The municipality did not have and maintain effective, efficient and transparent systems of financial and risk management and internal controls as required by section 62(1)(c)(i) of the MFMA

Budgets

36. Monthly budget statements were not submitted to the relevant provincial treasury, as required by section 71(1) of the MFMA.
37. Quarterly reports were not submitted to the council on the implementation of the budget and financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.

Annual financial statements, performance and annual report

38. The 2011-12 annual report was not made public immediately after the annual report was tabled in the council, as required by section 127(5)(a) of the MFMA.
39. The oversight report, containing comments on the annual report, was not adopted by council within two months from the date on which the 2011-12 annual report was tabled, as required by section 129(1) of the MFMA.
40. The council's oversight report on the 2011-12 annual report was not made public within seven days of its adoption, as required by section 129(3) of the MFMA.
41. 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 were not adequately corrected, which resulted in the financial statements receiving a disclaimer audit opinion.

Audit committees

42. The audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by the Municipal Planning and Performance Management Regulation 14(4)(a)(iii).

Procurement and contract management

43. Invitations for competitive bidding were not always advertised for a required minimum period of days, as required by Supply Chain Management (SCM) regulation 22(1) and 22(2).
44. 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).
45. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) and (c).
46. Bid adjudication was not always done by committees which were composed in accordance with SCM regulation 29(2).
47. Awards were made to providers whose directors are in the service of other state institutions, in contravention of MFMA 112(j) and SCM 44.

Human resource management and compensation

48. An acting senior manager was appointed for a period of more than six months, in contravention of section 56(1)(c) of the MSA.

Expenditure management

49. Money owing by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.
50. An effective system of expenditure control, including procedures for approval, was not in place, as required by section 65(2)(a) of the MFMA.
51. 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

52. The allocation for the municipal infrastructure grant was utilised for purposes other than those stipulated in the grant framework, in contravention of section 16(1) of the Division of Revenue Act, 2012 (Act No.5 of 2012)(DoRA)
53. The municipality did not timeously submit project registration forms, for projects it intends implementing in the 2013-14 financial year, to the national department of Cooperative Governance and Traditional Affairs (CoGTA), as required by the *Division of Revenue Grant Framework, Gazette No.35399*.
54. The municipality did not submit, within 10 days after the end of each month, its monthly expenditure reports to the national department (CoGTA), as required by the

Division of Revenue Grant Framework, Gazette No.35399

55. The municipality did not evaluate its performance in respect of programmes funded by the finance management grant and municipal systems improvement grant within two months after the end of the financial year, as required by section 12(5) of the DoRA.
56. The municipality did not submit MFMA implementation plans to National Treasury to address weaknesses in financial management, as required by the *Division of Revenue Grant Framework, Gazette No.35399*.

Revenue management

57. A tariff policy was not implemented for the levying of fees for provision of municipal services, as required by section 74(1) of the MSA and section 62(1)(f)(i) of MFMA.
58. A credit control and debt collection policy was not implemented, as required by section 96(b) of the MSA and section 62(1)(f)(iii) of MFMA.

Asset management

59. 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.
60. 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

Consequences management

61. Unauthorised, irregular as well as fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA

Internal Control

62. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

63. Oversight responsibility regarding financial and performance reporting and compliance and related internal controls was not exercised.
64. The accounting officer did not implement HR management effectively to ensure that adequate and sufficiently skilled resources are in place.
65. There was no detailed review of the financial statements and the annual performance report, resulting in several misstatements not identified and corrected.
66. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure.

Financial and performance management

- 67. The financial statements and other information to be included in the annual report are not reviewed for accuracy and completeness by the accounting officer.
- 68. Controls over daily and monthly processing and reconciling of transactions were not implemented by the accounting officer
- 69. Compliance with laws and regulations was not reviewed and monitored by the accounting officer.
- 70. There is no proper record keeping to support the financial statements and the annual performance report, consequently requested information was not submitted

Governance

- 71. The risk assessment procedures implemented by the municipality were not adequate, as all risks affecting the municipality were not identified.

Auditor-General.

Polokwane
30 November 2013



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence