

# **Report of the auditor-general to Limpopo Provincial Legislature and Council on Mopani District Municipality**

## **Report on the audit of the financial statements**

### **Disclaimer of opinion**

1. I was engaged to audit the financial statements of the Mopani District Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2021, the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

### **Basis for disclaimer of opinion**

#### **Property, plant and equipment**

3. I was unable to obtain sufficient appropriate evidence for infrastructure assets, work in progress, other property, plant and equipment, undefined difference and furniture fixtures and IT equipment, amounting to R4 096 068 203, R1 889 423 360, R46 527 589, R4 064 762, R1 424 286 and (R1 232 845) respectively included in property plant and equipment due to the status of record keeping of the municipality. I was unable to confirm infrastructure assets, work in progress and other property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustment were necessary to infrastructure assets, work in progress and other property, plant and equipment disclosed in note 3 to the financial statement. Since the property plant and equipment balance is used in the determination of depreciation reported in the statement of financial performance, I was unable to determine whether any adjustment were necessary to depreciation from infrastructure assets, other property, plant and equipment, undefined difference, furniture and fixtures stated at R179 591 725, R4 283 651, (R4 064 762), R636 023 respectively disclosed in note 3 to the financial statement.

## Expenditure

4. The municipality did not have adequate internal controls systems for classifying expenditure by nature as required by GRAP 1, *Presentation of financial statements*. I have identified general expenses of R96 196 119 that were incorrectly classified as repairs and maintenance. Furthermore there were repairs and maintenance costs of R7 239 787 that were incorrectly classified as general expenses. Consequently, repairs and maintenance and general expenses are overstated by R96 196 119 and R7 239 787 respectively.
5. GRAP 1, *Presentation of financial statements* requires each material class of similar items to be presented separately in the financial statements and that items of a dissimilar nature or function be presented separately unless they are immaterial. With reference to note 29 to the financial statements, general expenses, an amount of R31 983 576 was disclosed as other expenses. Included in this amount is expenditure amounting to R22 325 350 for VAT recovery services which was not presented separately in the note 29 to the financial statements. The municipality did not classify expenditure as required by GRAP 1, *Presentation of Financial Statements*.
6. The municipality did not recognise expenditure in terms of GRAP 1, *Presentation of Financial Statements*. I have identified items of property, plant and equipment amounting to R16 404 257 that were expensed instead of being capitalised as property, plant and equipment in terms of GRAP 17, *Property, plant and equipment*. Consequently, repairs and maintenance stated at R305 510 232 is overstated by R16 404 257. There is a resultant impact on property, plant and equipment and surplus for the period.
7. The municipality did not have adequate internal controls for accounting for expenditure on the usage of inventories. I have identified expenditure on inventories of R63 717 922 that was expensed on purchase instead of being expensed through use in terms of GRAP 12, *Inventories*. The expenditure as per the accounting system was not reconciled to the inventory records. Consequently repairs and maintenance stated at R305 510 232 was overstated. I was unable to determine the full extent of the overstatement, as it was impracticable to do so due to the nature of the underlying records. There is a resultant impact on inventories and surplus for the period.
8. The municipality did not properly account for bulk purchases in the accounting records. I have identified a difference of R10 054 382 between bulk purchases as per the statement of financial performance of R184 169 129 and bulk purchases of R174 114 747 as per the underlying records. Consequently bulk purchases stated at R184 169 129 in the statement of financial performance is overstated by R10 054 382. There is a consequential impact on surplus for the period and payables from exchange transactions.

## Receivables from exchange transactions

9. GRAP 104, *Financial instruments* requires, an entity to assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. The municipality did not assess whether there was any objective evidence that the Ba-Phalaborwa local municipality receivable amounting to R472 903 827 (2019/20: R302 010 237) was impaired. Ba-Phalaborwa local municipality has not repaid any portion of the outstanding debt in the current and prior periods. I was unable to determine whether any

further adjustment was necessary to the Ba-Phalaborwa local municipality receivable stated at R472 903 827 (2020: R302 010 237) as per note 7 to the financial statements.

10. The municipality did not establish adequate internal controls to reconcile its receivables. I have identified unexplained differences between the district's records and Ba-Phalaborwa local municipality's records amounting to R224 689 925. I have further noted that the receivable was not correctly accounted for in accordance with the service level agreement between the district and the local municipality, resulting in a difference of R128 450 873. I was unable to audit the differences by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the Ba-Phalaborwa local municipality receivable stated at R472 903 827 (2020: R302 010 237) in note 7 to the financial statements.
11. I was unable to obtain sufficient appropriate audit evidence for consumer debtors due to the difference between the financial statements and the underlying records. In addition the municipality did not disclose the consumer debtors in accordance with GRAP 104, *Financial instruments*. I could not confirm the consumer debtors by alternative means. I was unable to determine whether any further adjustments were necessary to consumer debtors stated at R227 447 093 in note 7 to the financial statements.
12. The municipality did not implement adequate internal control systems for recording and accounting for Value Added Taxation (VAT). I identified an unexplained differences between the financial statements and the underlying records amounting to R55 696 114. In addition, the municipality did not provide supporting records for the restatement of the corresponding figure for VAT receivables from R55 065 203 as previously reported to R166 847 080 and journals amounting to R81 933 326 that were processed in the prior year without supporting documentation. The restatement also affect the current period's closing balance. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary for VAT receivable stated at R222,484,993 (2020: R166 847 080) in note 7 to the financial statements.

#### **Payables from exchange transactions**

13. Included in payables from exchange transactions of R1 649 933 472 as per note 13 to the financial statements, are debtors with credit balances amounting to R17 915 527. The municipality did not implement adequate internal controls systems for allocating payments received from customers, resulting in some customers having positive and negative balances on various services while the overall balance is a positive balance. The disclosed credit balances are not true credit balances but missallocations. Consequently debtors with credit balances stated at R17 915 527 are overstated by R17 915 526. There is a consequential impact on cosumer debtors.
14. I was unable to obtain sufficient appropriate audit evidence for other payables, trade creditors, Department of Water and Sanitation, Lepelle Northern Water, SITA and Eskom trade payables included in payables from exchange transactions due to significant differences identified between the financial statements and the underlying records. The municipality did not reconcile these balances to the underlying records. I was unable to confirm these payables by alternative means. Consequently, I was unable to determine whether any further adjustments

to payables from exchange transactions stated at R1 649 933 472 in note 13 to the financial statements were necessary.

15. The municipality did not establish adequate internal control systems for reconciling amounts it owes to the Water Service Providers (WSPs), Greater Tzaneen Municipality, Greater Giyani Local Municipality, Maruleng Local Municipality and Greater Letaba Local Municipality and the related agency fee due to these municipalities. I have identified differences between amounts as per the district municipality's records and amounts as per the local municipalities' records.. I have further identified errors in the computation of these payables amounting R19 218 260. This has an impact on the opening balances as well. I further identified a difference of R4 420 106 on agency fees payable. Consequently, payables from exchange transactions stated at R1 649 933 472 (2020: R1 712 594 998) in note 13 to the to the financial statements are understated by R23 638 366.

#### **Revenue from exchange transactions**

16. Included in revenue from exchange transactions as per note 15 to the financial statements is discount received of R160 942 118. Lepelle Northern Water wrote off a portion of the municipality's outstanding amount on the account for purchase of bulk water. The discount received constitute debt forgiveness in terms of GRAP 23, *Revenue from non-exchange transactions*. The municipality incorrectly accounted for the debt forgiveness as revenue from exchange transactions. Consequently, revenue from exchange transactions stated at R547 578 380 in note 15 to the financial statements is overstated by R160 942 118. Revenue from non-exchange transactions is understated by the same amount.
17. I identified a difference of R12 478 906 between the financial statements and the underlying records for service charges and interest on outstanding debtors. The municipality did not properly reconcile the general ledger to the underlying records. Consequently revenue from exchange transactions stated at R 547 578 380 in note to the financial statements is overstated by R12 478 906 There is a resultant impact on receivables from exchange transactions and surplus for the period.

#### **Revenue from non-exchange transactions**

18. The municipality did not recognise and disclose services in kind in terms of GRAP 23, *Revenue from non-exchange transactions*. The municipality's is occupying an office building situated within the Giyani Government Complex belonging to the Limpopo Provincial Government under the custodianship of the Department of Public Works, Roads and Infrastructure. The building is used as the municipality's head office for no consideration. Consequently revenue from non-exchange transactions stated at R1 751 551 494 in note 15 to the financial statements is understated. I was unable to determine the full extent of the understatement as it was impracticable to do so. There is a resultant impact on expenditure and surplus for the period.
19. Included in capital grants of R616 639 103 in note 21 to the financial statements, is revenue from government grant (capital) 12 amounting to R36 090 004. The nature of this revenue was not disclosed, however my audit identified that this amount is from the Regional Bulk Water Infrastructure Grant (RBIG). The municipality recognised the revenue contrary to the requirements of GRAP 23, *Revenue from non-exchange transactions*, which requires that as

an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it shall reduce the carrying amount of the liability recognised and recognise an amount of revenue equal to that reduction. The municipality recognised the revenue on the grant without using it for its intended purpose. Consequently, capital grants stated at R616 639 103 in note 21 to the financial statements is overstated by R36 090 004 and unspent conditional grants is understated by the same amount.

20. GRAP 1, *Presentation of financial statements*, requires that each material class of similar items be presented separately in the financial statements. Items of a dissimilar nature or function should be presented separately unless they are immaterial. With reference to note 21 to the financial statements, Water Service Infrastructure Grant includes an amount of R3 700 000 described as other. MIG and drought relief grant includes other of R42 300 000 and R27 100 000 respectively for the prior period. The nature of the other was not specified. These amounts refers to the portion of the unspent conditional grants that were deducted from the equitable share allocation for the current and prior year for roll over requests of unspent funds that were not approved by National Treasury.

#### **Cash and cash equivalents**

21. The municipality did not correctly disclose the cash book balances in the notes to the financial statements as required by section 125(a)(ii) of the MFMA. The cash book balances as disclosed in note 9 to the financial statements was overstated by R39 119 716.

#### **Employee benefit obligations**

22. I have identified inconsistencies on the disclosure of employee benefit obligation as per note 35 to the financial statements. The present value of the Post Employment Benefit Plan (PEMA) benefit of R50 362 210 is not consistent with the amount presented under the PEMA membership data of R29 457 000. There is an unexplained difference of R20 905 210. The amount used on the sensitivity analysis of R34 636 000 is also not consistent with the amount as per the main note. The amount used on the sensitivity analysis for long service awards of R23 052 000 is not consistent with the liability amount of R26 686 376 as per the main note. The five year history of the post employment benefit obligation was incorrectly referred to as a sensitivity analysis based on the medical care inflation. In addition the PEMA amount of R67 246 881 as per this disclosure is not consistent with the amount as per the main note. The disclosure was not presented in a clear and logical manner contrary to the requirements of GRAP 1, *Presentation of financial statements* which requires the presentation of information, including accounting policies, in a manner which provides relevant, reliable, comparable and understandable information. In some instances the narrative information refers to prior year information as current year information. I have not included a detailed description of all the presentation errors in this audit report as it was impracticable to do so.
23. In addition the municipality did not disclose the post employment obligation in accordance with GRAP 25, *Employee benefits*. Key assumptions and liability amounts attributable to local municipalities were omitted in the narrative disclosures.
24. I have identified differences between the assumptions used in the valuation of employee benefit obligation and the underlying records. The municipality did not reconcile the



differences between the actuarial reports and the underlying records. I was unable to confirm the differences by alternative means. Consequently, I was unable to determine whether any adjustments were necessary for employee benefit obligation of R76 748 957 as per note 35 to the financial statements.

### Multi-employer plans

25. The municipality did not disclose multi-employer plans in note 44 to the financial statements in accordance with GRAP 25, *Employee benefits*. The following disclosures were omitted:

- A description of the funding arrangements, including the method used to determine the entity's rate of contributions and any minimum funding requirements.
- A description of the extent to which the entity can be liable to the plan for other entities' obligations under the terms and conditions of the multi-employer plan.
- A description of any agreed allocation of a deficit or surplus on: wind-up of the plan or the entity's withdrawal from the plan.
- The expected contributions to the plan for the next reporting period.
- Information about any deficit or surplus in the plan that may affect the amount of future contributions, including the basis used to determine that deficit or surplus and the implications, if any, for the entity.
- An indication of the level of participation of the entity in the plan compared with other participating entities.

The multi-employer plans were not disclosed in sufficient detail to enable a detailed understanding of the municipality's financial exposure in the multi-employer plans.

### Inventories

26. The municipality did not implement adequate internal controls systems for accounting for inventory. I have identified items of property, plant and equipment that were recognised as inventories contrary to the requirements of GRAP 12, *Inventories*. In addition, I have identified differences between the value of inventories as per the inventories schedule that supports the financial statements and the amount as per the underlying records. Consequently, inventories stated at R30 467 636 in note 6 to the financial statements is overstated by R11 566 981. There is a resultant impact on property, plant and equipment. I was unable to determine the impact of these misstatements on other account balances and classes of transactions as it was impracticable to do so.

### Statement of comparison of budget and actual amounts

27. GRAP 24, *Budget information* requires the municipality to present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements. The municipality did not present a comparison of budget and actual amount for the statement of cash flows in the statement of comparison of budget and actual amount as required by GRAP 24, *Budget information*.

28. The municipality did not have adequate controls in place for reconciling the statement of comparison of budgets and actual amounts to the underlying records. I have identified an undefined difference of R171 785 263 on the statement and R30 467 636 as a result of a casting error on the total assets. In addition no actual amounts were presented for inventories and cash and cash equivalents. The actual amount of receivables from exchange transactions of R721 954 081 as per the statement differ to the amount of R949 401 174 as per note 7. The actual amount for contracted services was presented under general expenses, thus understanding actual expenditure for contracted services. The statement of comparison of budget and actual was not properly prepared to account for how the approved budget was spent.
29. The municipality did not by way of a note disclosure provide an explanation of material differences between the budget for which the municipality is held publicly accountable and actual amounts as required by GRAP 24, *Budget information*.
30. The accounting policy on budget information states that the approved budget is prepared on a cash basis and presented by functional classification linked to performance outcome objectives. The statement of comparison of budget and actual amounts also states that the budget is on a cash basis. This is contrary to the approved budget, as the budget was prepared on an accrual basis.

#### **Statement of cash flows**

31. The municipality did not correctly prepare and disclose the statement of cash flows as required by Standards of GRAP 2, *Cash flow statements*. I have identified an undefined difference of R104 209 507 on net cash flows from operating activities (2019/20: R5 741 923). In addition, I identified a difference of R141 942 618 (2019/20: R5 741 917) between the year end cash and cash equivalents balance as per the statement of cash flows and the amount as per the statement of financial position. I was not able to determine the full extent of the errors in the statement of cash flows as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from operating activities, investing activities and financing activities stated at R311 732 151, R612 637 301 and R26 759 930 respectively in the statement of cash flows was necessary.

#### **Going concern**

32. The municipality did not correctly prepare and disclose the going concern note 30 as required by Standards of GRAP 1, *Presentation of financial statements*. The municipality disclosed that total liabilities exceeded total assets by R5 356 202 130 whereas in the financial statements it is the total assets that exceed total liabilities by R5 356 202 130. The municipality did not disclose some of the material uncertainties related to events or conditions that may cast significant doubt upon the municipality's ability to continue as a going concern. This includes failure to adopt a fully funded budget, failure to collect revenue on water and sanitation, the impact of litigations on the going concern assessment and that current liabilities exceed current assets by R749 927 241. I have not included all the omitted information in this auditor's report as it was impracticable to do so.

## Risk Management

33. The municipality is exposed to a number of risks associated with holding material financial instruments. Contrary to the requirements of Standards of GRAP 104, *Financial instruments*, the municipality did not fully disclose the nature and extent of risks arising from financial instruments in note 37 of the financial statements. The municipality should disclose the fair value hierarchy of financial instruments, profiling and assessment of credit risk of a group or subgroup of debtors and the market risk analysis. Furthermore, the accounting policy was not properly completed as major classes of financial assets and liabilities were not disclosed.
34. The Municipality did not calculate the liability maturity analysis for the liquidity risk disclosures in accordance with of Standards of GRAP 104, *Financial instruments*. Consequently the liquidity risk maturity analysis disclosed in note 37 of the financial statements had cash and cash equivalents understated by R1 607 916, payables from exchange overstated by R 43 431 075 (2020: R19 230 451), finance lease liabilities understated by R5 651 015 and receivables from exchange transactions understated by R726 916 181 (2020: R65 123 710).

## Presentation of financial statements

35. The municipality did not disclose correctly items in the financial statements notes, including accounting policies, in a manner which provides relevant, reliable, comparable and understandable information as per Standards of GRAP 1, *Presentation of financial statements*. The municipality did not disclose accounting policies on significant judgements and sources of estimation uncertainty for provisions, long service awards and impairment of assets. Incorrect accounting policies were made on the impairment of payables as well as stating that property plant and equipment was carried on a revaluation basis when it was carried on a historical basis. Details on major classes of intangible assets, amortisation method and useful lives were omitted from the intangible asset policy. The cost formula for the valuation of inventory was not included in the accounting policy for inventories.
36. The municipality further omitted accounting policies for VAT receivables, discount received, multi- employer plans, MFMA disclosures, correction of prior period errors and reclassification of comparative figures. I have not included the omitted information in the auditor's report as it is impracticable to do so.
37. The municipality did not assess and disclose in the notes to the financial statements new standards of GRAP that were issued but not yet effective as per standards of GRAP 3, *Accounting policies, changes in accounting estimates and errors*. I have not included the omitted information in the auditor's report as it is impracticable to do so.

## Contingents liabilities

38. Included in contingent liabilities of R400 025 981 as per note 33 to the financial statements are cases amounting to R201 496 771 that do not meet the definition of a contingent liability as per GRAP 19, *Provisions, contingent liabilities and contingent assets*. Consequently contingent liabilities stated at R400 025 981 as per note 33 to the financial statements are overstated by R201 496 771.



## Contingent assets

39. I was unable to obtain sufficient appropriate evidence for contingent assets amounting to R115 193 676. The municipality didn't have systems in place for determining whether the contingent assets meet the recognition criteria as per GRAP 19, *Provisions, contingent assets and liabilities*. The municipality included all claims it had against third parties as contingent assets without performing an assessment on each case on whether inflows of economic benefits or service potential had become probable. I was unable to confirm the contingent assets by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to contingent assets stated at R115 193 676 in note 33 to the financial statements.

## Unauthorised expenditure

40. The municipality incorrectly calculated current year unauthorised expenditure of R80 584 359 as per note 39 to the financial statements. I have identified an additional unauthorised expenditure amounting to R186 988 596, that was not disclosed in the financial statements. Consequently, unauthorised stated at R884 767 317 as per note 39 to the financial statements is understated by R186 988 596. In addition, the municipality did not include the required information on unauthorised expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. The municipality spent funds in excess of the limits of certain votes of the budget and the budget overall.

## Fruitless and wasteful expenditure

41. In terms of the revised settlement and payment agreement entered into between Mopani District Municipality and Lepelle Northern Water Board, Lepelle Northern Water reduced the municipality's liability by R160 942 118, made up of historical debt of R61 516 348 and accrued interest of R99 425 769. The municipality did not reduce the fruitless and wasteful expenditure balance disclosed in note 40 to the financial statements with the interest charges previously recognised. In addition, I have identified that the municipality had not fully accounted for the interest as only R69 595 819 of the total accrued interest of R99 425 769 was included in the municipality's opening balance for fruitless and wasteful expenditure of R359 244 383. Consequently, fruitless and wasteful expenditure opening balance is understated by R29 829 950 and the closing balance is overstated by R69 595 819. There is a consequential impact on accumulated surplus.
42. Included in current year fruitless and wasteful expenditure of R43 709 506, is interest and penalties amounting to R15 525 000 for Lepelle Northern Water. I was unable to obtain sufficient appropriate evidence for this interest as management did not provide any underlying records to support the amount. I was unable to confirm this amount by alternative means. Consequently, I was unable to determine whether any further adjustments to fruitless and wasteful expenditure stated at R402 953 889 in note 40 to the financial statements were necessary. There is a consequential impact on general expenses, surplus for the period and payables from exchange transactions.
43. The municipality did not include the required information on fruitless and wasteful expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. The

municipality incurred fruitless and wasteful expenditure on the account for bulk water purchases due to the account not being settled within 30 days from the date of receipt of the invoices.

#### **Irregular expenditure**

44. The municipality did not include the particulars of all irregular expenditure in the notes to the financial statements as required by section 125(2)(d)(i) of the Municipal Finance Management Act of South Africa (Act No. 56 of 2003) (MFMA). Furthermore, the municipality did not implement adequate internal control systems to identify and record all instances of irregular expenditure in both the current and prior year. This resulted in the irregular expenditure disclosure being understated. The full extent of the misstatement of irregular expenditure could not be quantified as it was impracticable to do so. Consequently, I was unable to determine the extent of adjustments necessary to the opening and closing balance of irregular expenditure disclosure stated at R1 461 554 028 (2020: R 1 161 276 023) in note 41 to the financial statements.

#### **Accounting by principals and agents**

45. The municipality did not disclose principal agent relationships in accordance with GRAP 108, *Accounting by principals and agents*. Key terms and conditions of the agreements entered into with local municipalities within the district for the provision of water and sanitation services on behalf of Mopani District Municipality were not included in note 46 to the financial statements. The municipality did not disclose significant judgements made in making the decision of whether they are the principal or agent as required by GRAP 109, *Accounting by principals and agents*. Included in the note is an amount of R16 765 693 described as revenue that the principal is entitled to and R15 691 956 described as write-offs, settlements or waivers. The disclosure is incorrect as the principal agent relationship between Mopani District Municipality and the Department of Water and Sanitation does not result in revenue that accrues to the department. In addition there were not write-offs, settlements or waivers of R15 691 956. The R15 691 956 represents amounts reimbursed by the department for expenditure incurred on its behalf.

#### **Commitments**

46. The municipality restated the comparative figure for commitments from R474 513 127 as previously reported to R478 907 963 in order to correct errors identified on commitments in the prior year. I have identified a difference of R34 400 000 between the restated comparative figure and the amount as per the underlying records. In addition, I have identified commitments amounting to R11 591 604 that were removed from the commitments register without any justification. Consequently the comparative figure for commitments disclosed in note 32 to the financial statements is understated by R45 991 604.
47. The municipality did not maintain adequate internal control systems for recording and accounting for commitments. I have identified differences amounting to R70 139 389 between commitments as per the commitments register and the underlying records. In addition, I identified commitments of R29 122 387 that were not recorded in the accounting records. Consequently commitments stated at R365 256 879 in note 32 to the financial statements are overstated by R41 017 002.

## Deviation from supply chain management regulations

48. The municipality did not disclose deviations from normal supply chain management processes in accordance with Municipal Supply Chain Management Regulations 36(2) which requires the accounting officer to record reasons for any deviations in terms of subregulation (1)(a) and include them as a note to the annual financial statements. In addition, I was unable to obtain sufficient appropriate evidence for deviations stated at R33 009 103 in note 43 to the financial statements as supporting documents were not provided for audit. Consequently, I was unable to determine if any adjustments were required to deviation stated at R33 009 103 in note 43 to the financial statements.

## Distribution losses

49. The municipality did not disclose water distribution losses contrary to the requirements of MFMA s125(2)(d). I have identified water distribution losses amounting to R92 084 967 (2019/20: R62 026 428) as per the underlying records. Consequently water distribution losses are understated by R92 084 967 (2020: R62 026 428).

## Related parties

50. Contrary to the requirements of GRAP 20, *Related party disclosures*, management did not disclose the municipality's related party relationship with municipal councillors. In addition remuneration of councillors amounting to R13 077 092 was incorrectly presented as part of employee related costs on note 22 to the financial statements.
51. The municipality did not disclose the remuneration of management personnel in accordance with GRAP 20, *Related-party disclosures*. The remuneration of management should be disclosed per person and in aggregate, for each class of management, in the following categories: fees for services as a member of management; basic salary; bonuses and performance related payments; other short-term employee benefits; post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care; termination benefits; other long-term benefits; any commission, gain or surplus sharing arrangements; and any other benefits received. As per note 22 of the financial statements, the remuneration of management was disclosed into the following categories: annual remuneration, car allowance and other per person. The total remuneration of management as per note 22 is not consistent with the remuneration of management of R10 260 841 as per note 34, Related parties. The remuneration was not disclosed in aggregate into the categories as per GRAP 20, *Related parties*.
52. In addition, a member of management for legal services and a councillor as per the underlying records for related parties were omitted in the disclosure per person on note 22. Some members of the governing body, council, were included as part of management contrary to the requirements of GRAP 20, *Related parties*, which requires that where an entity has a governing body that is separate from its senior management group, disclosures about remuneration of the two groups be made separately. The municipality did not implement adequate internal controls systems to ensure that all related parties relationships and remuneration is disclosed as per the requirements of GRAP 20, *Related parties*.

53. The municipality incorrectly included relationships with local municipalities as part of the related parties disclosure. Local municipalities do not meet the definition of a related party as per GRAP 20, *Related parties*. The local municipalities falls within the scope of GRAP 109, *Accounting by principals and agents*.

### **Emphasis of matter**

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

### **Restatement of corresponding figures**

55. As disclosed in note 36 to the financial statements, some corresponding figures for 30 June 2020 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2021.

### **Other matters**

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

### **Unaudited supplementary schedules**

57. The supplementary schedule set out on pages xx to xx does not form part of the financial statement and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

### **Unaudited disclosure notes**

58. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

### **Responsibilities of the accounting officer for the financial statements**

59. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Financial Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 4 of 2020 (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.
60. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

## Auditor-general's responsibilities for the audit of the financial statements

61. My responsibility is to conduct an audit of the financial statements in accordance with the International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.
62. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code), as well as the other ethical requirements that relevant to my audit of the financial statements in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

### Report on the audit of the annual performance report

#### Introduction and scope

63. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
64. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
65. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the municipality's annual performance report for the year ended 30 June 2021:

Development priorities	Pages in the annual performance report
Development priority (2) – Basic Service Delivery	x – x

66. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and



related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

67. The material findings on the reliability of the performance information of the selected development priorities are as follows:

#### **Development priority 2 – Basic Service Delivery**

##### **Number of households with access to water**

68. I was unable to obtain sufficient appropriate audit evidence for the achievement of 4 509 households with access to water reported against a target of 30 000 households in the annual performance report, due to the lack of accurate and complete records. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement.

#### **Other matters**

69. I draw attention to the matters below.

##### **Achievement of planned targets**

70. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the reliability of the reported performance information in paragraph 67 of this report.

##### **Adjustment of material misstatements**

71. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of basic service delivery. As management subsequently corrected only some of the misstatements, I raised material findings on the reliability of the reported performance information. Those that were not corrected are reported above.

### **Report on the audit of compliance with legislation**

#### **Introduction and scope**

72. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the municipality's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
73. The material findings on compliance with specific matters in key legislation are as follows:

## **Annual financial statements and annual reports**

74. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) 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 subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.
75. The annual financial statements were not submitted to the Auditor-General, for auditing, within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.

## **Procurement and contract management**

76. Sufficient appropriate audit evidence could not be obtained that some of the contracts were awarded in accordance with the legislative requirements as supporting evidence could not be for audit purposes resulting in limitation of scope.
77. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM Regulation 19(a). This non-compliance was identified in the procurement processes for the water reticulation projects. Furthermore sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by inviting competitive bids This non-compliance was identified in the procurement processes for the water reticulation projects
78. Sufficient appropriate audit evidence could not be obtained that bid specifications were unbiased and allowed all potential suppliers to offer their goods or services, as required by SCM Regulation 27(2)(a). This non-compliance was identified in the procurement processes for water reticulation projects.
79. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM Regulation 22(1) and 22(2). This non-compliance was identified in the procurement processes for the water reticulation projects. Furthermore sufficient appropriate audit evidence could not be obtained that some invitations for competitive bidding were advertised for a required minimum period of days, as required by SCM Regulation 22(1) and 22(2). This non-compliance was identified in the procurement processes for the water reticulation projects
80. Some of the contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding and quotations, in contravention of SCM regulations 21(b) and 28(1)(a)(i) and the Preferential Procurement Regulations. This non-compliance was identified in the procurement processes for the water reticulation projects. Furthermore sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding as required by SCM regulations 21(b) and 28(1) (a)(i) and Preferential Procurement Regulations. This non-compliance was identified in the procurement processes for the water reticulation projects
81. Some of the contracts were awarded through a competitive bidding processes that were not adjudicated by the bid adjudication committee as required by SCM Regulation 29(1)(a) and (b). This non-compliance was identified in the procurement processes for the water reticulation

projects. Furthermore sufficient appropriate audit evidence could not be obtained that contracts were awarded through a competitive bidding process that were adjudicated by the bid adjudication committee as required by SCM Regulations 29(1) (a) and (b) and Preferential Procurement Regulations.

82. Some of the contracts were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM Regulation 29(5)(b). Furthermore sufficient appropriate audit evidence could not be obtained that some of the contracts awarded were ratified by the accounting officer as required by SCM Regulation 29(5)(b). This non-compliance was identified in the procurement processes for the water reticulation projects
83. Sufficient appropriate audit evidence could not be obtained in some instances to show that councilors of the municipality did not participate in committees evaluating or approving tenders and quotations in as required by section 117 of the MFMA.
84. Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM Regulation 13(c).
85. Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to bidders who submitted a declaration showing whether they were employed by the state or connected to any person employed by the state, as required by SCM Regulation 13(c). This non-compliance was identified in the procurement processes for the water reticulation projects
86. Sufficient appropriate audit evidence could not be obtained that shows that measures to combat the abuse of the SCM system were implemented as per the requirements of SCM Regulation 38(1), by carrying out assessment of contractors previous performance.
87. Sufficient appropriate audit evidence could not be obtained that shows that some goods or services procured under contracts secured by other organs of state were in accordance with Regulation 32
88. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000 as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act.
89. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of section 2(1)(a) Preferential Procurement Policy Framework Act and its regulations.
90. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders that scored the highest points in the evaluation process as required by section 2(1)(f) of Preferential Procurement Policy Framework Act and 2017 Preferential Procurement Regulations 11.
91. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders based on points given for criteria that were stipulated in the original

invitation for bidding and quotations, as required by the 2017 Preferential Procurement Regulation 5(1) & 5(3).

92. Sufficient appropriate audit evidence could not be obtained that tenders which failed to achieve the minimum qualifying score for functionality were disqualified as unacceptable tender in accordance with 2017 Preferential Procurement Regulation 5(6)
93. Sufficient appropriate audit evidence could not be obtained that tenders which failed to achieve the minimum qualifying score for functionality were not evaluated further in accordance with 2017 Preferential Procurement Regulation 5(7).
94. Sufficient appropriate audit evidence could not be obtained that invitations to tender for procurement of commodities designated for local content and production, stipulated the minimum threshold for local production and content as required by the 2017 Preferential Procurement Regulations 8(2).
95. Sufficient appropriate audit evidence could not be obtained that commodities designated for local content and production, were procured from suppliers who submitted a declaration on local production and content as required by the 2017 Preferential Procurement Regulation 8(5).
96. Sufficient appropriate audit evidence could not be obtained that commodities designated for local content and production, were procured from suppliers who met the prescribed minimum threshold for local production and content, as required by the 2017 Preferential Procurement Regulation 8(5).
97. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM Regulation 5.
98. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the water reticulation projects.
99. Sufficient appropriate audit evidence could not be obtained that contract performance and monitoring measures were in place to ensure effective contract management as required by section 116(2)(c)(ii) of the MFMA. Similar limitation was also reported in the prior year. This limitation was identified in the procurement processes for the rural household sanitations
100. Awards were made to providers who were in the service of other state institutions or whose directors / principal shareholders were in the service of other state institutions in contravention of MFMA 112(1)(j) and SCM Regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM Regulation 38(1).
101. Some of the persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM Regulation 46(2)(e).

### **Utilisation of conditional grants**

102. The Regional Bulk Infrastructure Grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 17(1) of the Division of Revenue Act (Act 4 of 2020).
103. Performance in respect of programmes funded by the Regional Bulk Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 4 of 2020).

### **Expenditure management**

104. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the approval and payment of funds, as required by section 65(2)(a) of the MFMA.
105. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by not adhering to the competitive bidding processes in accordance with SCM regulations.
106. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the fruitless and wasteful expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed fruitless and wasteful expenditure was caused by penalties due to non-payment of bulk water purchases from the department of water and sanitation.
107. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed unauthorised expenditure was caused by was caused by spending in excess of the approved limits in several votes.

### **Revenue management**

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

### **Assets management**

109. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

### **Consequence management**

110. Unauthorised 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) of the MFMA.



111. Irregular, fruitless and wasteful expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

#### **Strategic planning and performance management**

112. The performance management system and related controls were inadequate as it did not describe how the performance monitoring, measurement and review processes should be conducted, organised and managed, as required by municipal planning and performance management regulation 7(1).

#### **Other information**

113. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.

114. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.

115. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

116. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

#### **Internal control deficiencies**

117. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

118. The accounting officer and management did not exercise adequate oversight responsibility regarding financial and performance reporting and compliance with laws and regulations.

Leadership did not exercise effective monitoring over the implementation of the audit action plan resulting in recurring prior year issues.

- 119. Consequence management was not adequately implemented to deter non-performance and promote clean administration.
- 120. The basic accounting principles of daily and monthly accounting and reconciling of transactions was not adequately implemented and monitored.
- 121. The financial statements and the annual performance report are not reviewed for accuracy and completeness by the accounting officer.
- 122. The accounting officer does not effectively manage and monitor the water and sanitation functions delegated to the local municipalities.
- 123. Finance officials lack necessary skills and competencies to fulfil their duties, resulting in the excessive use of consultants.
- 124. Internal controls for monitoring compliance with laws and regulations are ineffective as they do not detect and prevent instances of non-compliance with applicable laws and regulations.
- 125. The internal control monitoring mechanisms of the municipality are not functioning optimally, as many control weaknesses are only discovered during the audit of the financial statements and performance information.

#### Other reports

- 126. I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
- 127. The Special Investigating Unit is investigating the procurement of goods and services that was in contravention of supply chain management laws and regulations and other matters as per the proclamations issued. The investigation was still in progress at year end.

128. The municipality appointed an external service provider to conduct an investigation on the contract for deep fumigation in the district following claims submitted by the service provider in excess of R25 000 000. The investigation was finalised towards year end and the matter is currently with the accounting officer for further action.

Auditor-General  
Polokwane

14 February 2022

