Report of the auditor-general to Limpopo Provincial Legislature and the Municipal Council on Vhembe District Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Vhembe District Municipality set out on pages x to x, which comprise the statement of financial position as at 30 June 2022, 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. In my opinion, except for possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Vhembe District Municipality as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA), and the Division of Revenue Act 9 of 2021 (DoRA).

Basis for qualified opinion

Revenue from exchange transactions

3. The municipality did not recognise service charges revenue, as required by GRAP 9, *Revenue from exchange transactions*. Accounts were identified for which service charges were not billed and recorded. I was unable to determine the full extent of the understatement of service charges, stated at R 515 078 064 (2021: R309 284 653) in note 15 to the financial statements and related receivable from exchange transactions, stated at R2 641 612 in note 3 to the financial statements, as it was impracticable to do so. There was a resultant impact on the surplus for the period and on the accumulated surplus.

4. The municipality did not account for revenue in the correct accounting period in accordance with GRAP 9*, Revenue from exchange transactions*. Revenue relating to services that were rendered in the previous accounting periods was incorrectly recognised in the current accounting period. I was unable to determine the full extent of the overstatement of service charges in the current year and understatement in the prior year, stated at R515 078 064 (2021: R309 284 653) in note 15 to the financial statements as it was impracticable to do so. There was a resultant impact on the surplus for the period and on the accumulated surplus.

5. I was unable to obtain sufficient appropriate audit evidence for service charges due to a lack of proper record keeping of the meter readings. I could not confirm this by alternative means. I

was unable to determine whether any adjustments were necessary to revenue stated at R515 078 064 (2021: R309 284 653) and receivables from exchange transactions stated at R2 641 612 (2021: R10 991 943).

6. The municipality did not recognise service charges in accordance with GRAP 9, *Revenue from exchange transactions.* The municipality did not charge consumptions units in accordance with the approved tarrifs. Consequently, the revenue from exchange transaction and receivables from exchange transactions is overstated by R26 198 697.

Commitments

7. The municipality did not have an adequate system in place to account for commitments in accordance with the GRAP 1, *Presentation of Financial-Statements.* The municipality used incorrect contract amounts and omitted some payments that have already been made to contractors. Consequently, commitments are overstated by R202 764 547 1 in note 37 to the financial statements.

Context for the opinion

8. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.

9. 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 other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

10. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Restatement of corresponding figures

12. As disclosed in note 40 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2022.

Litigation and claims

13. With reference to note 37 to the financial statements, the municipality is the defendant in various claims, which it is opposing. The ultimate outcome of these matters cannot be determined and no provision for any liability that may result was made in the financial statements.

Material impairments – Trade and other receivables

14. As disclosed in note 25 to the financial statements, a material loss of R 594 140 071 was incurred as a result of impairment of trade and other receivables

Material losses

15. As disclosed in note 47 to the financial statements, material water losses of R487 729 252 were incurred, which represents 52% of total water purchased.

Underspending of the conditional grant

16. As disclosed note 9, the municipality materially underspent the water services infrastructure grant by R12 847 110.

Other matters

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

Unaudited disclosure notes

18. 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

19. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of GRAP and the requirements of the MFMA and the 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.

20. 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

21. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

22. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

23. 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.

24. 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.

25. 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 2022:

Development priorities	Pages in the annual performance report
KPA 1 – Basic services delivery and infrastructure development	x – x

26. 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.

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

KPA 1 – Basic services delivery and infrastructure development

Various indicators.

28. The following reported indicators did not agree with the planned indicator as approved in the service delivery budget implementation plan.

Indicator per SDBIP	Indicator per APR .
Revised indicator: 60% progress on testing of water reticulation at Tshimbupfe completed (Vyeboom pump station, and Vyeboom road crossing)	Revised indicator: 60% progress on testing of water reticulation at Tshimbupfe completed (Tshimbupfe Completion of Vyeboom pump station Testing completion at Vyeboom 30%, road crossing at Malonga).
80% progress on construction of 80km water reticulation network at Jim Jones, Mukhomi, Xigamani, Xihosana, Dididi,Dumela, Gumbani, Dumela, Gumbani, Mulenzhe, Tambaulate, Tshitomboni, (6x Elevated steel tanks complete 5x Concrete reservoirs completed 2x boreholes drilled and equipped)	80km water reticulation network at Jim Jones, Mukhomi, Xigamani, Xihosana, Dididi, Dumela, Gumbani, Mulenzhe, Tambaulate, Tshitomboni completede(40%, 6x Elevated steel tanks completed 20% 5x Concrete reservoirs completed 25% 2x Boreholes drilled and equipped 15%)
Revised indicator: 100% progress on internal reticulation at Nngwekhulu completion of technical report and approved, (Project submitted for application of funds)	Technical report completed and approved (50%, project submitted for application of funds.
Revised indicator: 100% progress on construction of Chavani and surrounding villages project at completed.	Revised indicator: 60% progress on construction of Chavani and surrounding villages bulk water project completed. (MIG MIS project registration)
100% progress on construction of Xikundu) water project completed (Pipe works to existing elevated tanks, Building & Fencing works, Civil Works ,Mechanical works on pump station, Medium Pressure pipeline, Reservoir Inlet & Outlet chambers. 3500m pipeline. River Crossing and Pipe protection, Chambers)	Revised indicator: 100% progress on construction of Xikundu water project (91%, pipe works to existing elevated tanks, 95% building and fencing works, 61% civil works,100% mechanical works on pumpstation, 100% medium pressure pipeline, 100% reservoir inlet and outlet chambers, 3500m pipeline, 100% river crossing and pipe protection, 100% chambers
Revised indicator: 100% progress on construction of Makhado West bulk water supply project completed (pumpstation, of 7.5 ml suction reservoir of 16.94 km gravity main steel pipeline of 14.720 km raising main steel pipeline, of 127 chambers)	Revised indicator: 100% progress on construction of Makhado West bulk water supply project. (7% pump station, 10% of 7.5 ml suction reservoir, 2% of 16.94 km gravity main steel pipeline, 32% of 14.720 km raising main steel pipeline, 31% of 127 chambers)
111 ventilated improved pit (VIP) latrine completed	882 ventilated improved pit (VIP) latrine completed

Eight hundred and eighty-two (882) Ventilated improved Pit (VIP) latrine completed – Target is not consistent between APR and SDBIP.

29. The reported target of 882 did not agree with the planned target of 111 as per the approved in the SDBIP.

Various indicators

30. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined source information and method of collection or that related systems and processes were established to enable consistent measurement and reliable reporting of the actual achievement of the indicators listed below. This was due to a lack of measurement definitions and processes. I was unable to confirm that the indicator is well-defined and

verifiable by alternative means. As a result, I was unable to audit the reliability of the achievements reported in the annual performance report of the listed indicators.

Indicator as per APR
Revised indicator:60% progress on testing of Water reticulation at Tshimbupfe completed (Tshimbupfe Completion of Vyeboom pump station Testing completion at Vyeboom 30%, Road crossing at Malonga)
Revised indicator:100% progress on construction of Mashau regional water scheme (RWS) and reticulation Mashau project completed
Revised indicator:80km Water reticulation network at Jim Jones, Mukhomi, Xigamani, Xihosana, Dididi, Dumela, Gumbani, Mulenzhe, Tambaulate, Tshitomboni completede(40%, 6x Elevated steel tanks completed 20% 5x Concrete reservoirs completed 25% 2x boreholes drilled and equipped 15%)
Revised indicator:Technical report completed and approved (50%, project submitted for application of funds)
Revised indicator:80% progress on construction of New Xigalo East temporary water supply construction of supply pipeline completed and provisioning of street taps at 200m distance project
Revised indicator: One (1) construction of Mtititit and Malamulele borehole and associated infrastructure completed
100% progress on construction of Xikundu water project completed (Pipe works to existing elevated tanks, building and fencing works, civil works, mechanical works on pump station, medium pressure pipeline, reservoir inlet and outlet chambers, 3500m pipeline,. river crossing and pipe protection, chambers)
Revised indicator: 60% progress on construction of Chavani and surrounding villages bulk water project completed. (MIG MIS project registration)
Revised indicator: 100% progress on construction of Mutshedzi Regional water scheme project completed
Revised indicator: 100% progress on construction of Makhado West bulk water supply project. (7% pump station, 10% of 7.5 ml suction reservoir, 2% of 16.94 km gravity main steel pipeline, 32% of 14.720 km raising main steel pipeline, 31% of 127 chambers)
Revised indicators:One (1) construction of Tshivhyuni Lusaka borehole completed Tshivhuyuni Lusaka: Site, drill, Test and equipping, construction of pump House, Construction of rising and gravity main pipeline and provision of street stand pipes
Revised indicators:One progress on refurbishment of Sinthumule /Kutama boreholes completed (Re-drilling and equipping of boreholes at Tshiozwi (2) and Magau (2), Ravele, Madodonga(2))
Revised indicator: One (1) construction of borehole at Mbodi village completed (Site, drill Test and equipping, construction of pump House, Construction of rising and gravity main pipeline and provision of street standpipes)
Revised indicators:One (1) construction of borehole at Domboni Folovhodwe completed (Site, drill Test and equipping, construction of pump House, Construction of rising and gravity main pipeline and provision of street stand pipes)
Revised indicator:80% progress on construction of project at block A (Miluwani and Tshidaulu) reticulation water project completed (construction of reservoir and pipe works and connections)
Revised indicator:100% progress on procurement and advertising of bulk water supply and reticulation Duthuni (Sub village Tshisaulu and Makumane completed (procurement and Advertising)
One (1) refurbishment of Mutale dam water completed

Indicator as per APR
Revised indicator:100% progress on construction of Ngwenani Themeli, Ngulumbi, Ngovhela, Madam alala, and Phi ndula bulk water supply and water reticulation completed
Revised indicator:100% progress on the designs for Murangono, Marranzhe, Vondo la fhasi,Tshikunda Matondoni water supply project completed
Revised indicator:100% progress on upgrading of Damani water treatment plant from 4ML/day and associated bulk line pipes completed (Refurbishment of Damani water treatment plant, bulk pipeline from Damani WTW via Makhuvha to Tshivhilwi, bulk pipeline from Damani WTW to Tshipako including manholes, bulk pipeline from Damani WTW via Muhuyu to Matangari
Revised indicator:One Tshikundamalenme borehole and associated infrastructure project completed
Revised indicator:One Tshisaulu borehole refurbishment completed (Site, drill, test and equipping, construction of pump house, construction of rising and gravity main pipeline and provision of street standpipes)
Revised indicator:100% progress on construction of Vuwani to Vyeboom reservoir completed (Reticulation of Tshivhulani bulk water supply and internal water reticulation Tshino bulk water supply and internal water reticulation)
Revised indicator:100% progress on construction of Jarome command water reservoir project completed
Revised indicator:One Mukula water supply and storage project complete
Revised indicator:100% Progress on construction of Increasing the capacity of Vondo WTW and upgrading of water related infrastructure in the area completed (Clear water storage, highlight pumpstation, new filter blocks, wash water and sludge holding tanks, inlet structure, flocculation channels, mechanical works, electrical works and 10 ML reservoir.
Revised indicator:One upgrade of Mantswale sewer line completed
Revised indicator:100% progress on replacement of 200mm sewer bulk line to 300mm for 1,5km completed
100% maintenance of water equipment
100% maintenance of boreholes

Various indicator

31. The source information for achieving the following planned indicator was not clearly defined.

Indicator
110 reservoirs water levels procured
110 reservoirs water levels installed

Various indicators

32. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against targets for the indicators listed below as reported in the annual

performance report. This was due to limitations placed on the scope of my work. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance.

Indicator description	Planned targets	Reported achievements
100% progress on construction of Mashau regional water scheme (RWS) and reticulation Mashau project	100%	98%
80% progress on construction of 80km Water reticulation network at Jim Jones, Mukhomi, Xigamani, Xihosana, Dididi,Dumela, Gumbani, Mulenzhe, Tambaulate, Tshitomboni	80,00%	75%
100% progress on internal reticulation at Nngwekhulu completion of technical report and approved	100%	50%
One construction on of Mtititit and Malamulele borehole and associated infrastructure completed	1	0
100% progress on construction of Xikundu water project completed (Pipe works to existing elevated tanks, building and fencing works, civil works, mechanical works on pump station, medium pressure pipeline, reservoir inlet and outlet chambers, 3500m pipeline,. river crossing and pipe protection, chambers)	100%	98%
100% progress on construction of Chavani and surrounding villages project at completed.	100%	0
100% progress on construction of Mutshedzi regional water scheme project completed	100%	65%
100% progress on construction of Makhado West bulk water supply project completed (Pump station, of 7.5 ML suction reservoir of 16.94 km gravity main steel pipeline of 14.720 km raising main steel pipeline, of 127 chambers)	100%	95%
One progress on refurbishment of Sinthumule /Kutama boreholes completed (Re-drilling and equipping of boreholes at Tshiozwi (2) and Magau (2), Ravele, Madodonga(2))	1	0

Indicator description	Planned targets	Reported achievements
100% progress on procurement and advertising of bulk water supply and reticulation Duthuni (Sub village Tshisaulu and Makumane completed (Procurement and advertising)	1	0
100% progress on construction of Ngwenani Themeli, Ngulumbi, Ngovhela, Mad amalala, and Phindulabulk water supply and water reticulation completed	100%	65%
100% progress on the designs for Murangono, Marranze, Vondo la fhasi,Tshikunda Matondoni water supply project completed	100%	95%
One Tshikundamalenme borehole and associated infrastructure project completed	1	0
One refurbishment of Mutale dam water completed	1	0
100% progress on construction of Vuwani to Vyeboom reservoir completed (Reticulation of Tshivhulani water supply and internal water reticulation Tshino bulk water supply and internal water reticulation)	100%	98%

Various indicators

33. I was unable to obtain sufficient appropriate audit evidence for the reported achievements pertaining to the indicators listed below. This was due to the lack of accurate and complete records. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report for the indicators listed below

Indicator descprition	Reported target	Reported achievement
Four water pumps procured	4	4
3 000 plastic water meters for new household procured	3000	5000
833 water meters procured	833	1000
Materials for water leaks and replacement of rotten galvanized pipes (conventional and prepaid meters) procured	100%	100%

Various indicators

34. The achievements reported in the annual performance report materially differed from the supporting evidence provided for the indicators listed below:

Indicator descprition	Reported achievement
110 reservoirs water levels procured	110
100% Repairs and maintenance of water schemes	100%
140 bulk meters procured	179
140 bulk meters installed	140
One hundred and eleven (111)Ventilated improved Pit (VIP) latrine completed	0

99% of compliance to SANS 241

35. I was unable to obtain sufficient appropriate audit evidence for the achievement of 99% compliance to SANS 241 reported against target of 99% compliance to SANS 241 in the annual performance report, due to the lack of accurate and complete records. I was unable to confirm the reported achievement by alternative mean. Consequently, I was unable to determine whether any adjustments were required to the reported achievement.

Other matters

36. I draw attention to the matters below.

Achievement of planned targets

37. Refer to the annual performance report on pages x to x for information on the achievement of planned targets for the year and management's explanations provided for the under/over achievement of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs x to x of this report.

Report on the audit of compliance with legislation

Introduction and scope

38. 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.

39. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements, performance and annual reports

40. 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.

41. Material misstatements of current liabilities and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and/or the supporting records were provided subsequently, but the uncorrected material misstatements and/ or supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion

Strategic planning and performance management

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

Expenditure management

43. Reasonable steps were not taken to prevent irregular expenditure amounting to R105 183 314 as disclosed in note 46 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with supply chain management (SCM) regulations. Irregular expenditure amounting to R4 522 662 was incurred on the upgrading of Vondo Water Treatment Works.

44. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R539 220 738, as disclosed in note 44 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by inadequate budgeting on non-cash items.

Revenue management

45. An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA

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

Procurement and contract management

47. Some of the invitation to tender for procurement of commodities designated for local content and production, did not stipulated the minimum threshold for local production and content as required by the 2017 Preferential Procurement Regulation 8(2).

48. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

49. The contract performance and monitoring measures were not in place to ensure effective contract management, as required by section 116(2)(c)(ii) of the MFMA.

Other information

50. 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.

51. 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.

52. 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.

53. I did not receive the other information prior to the date of this auditor's report. After I receive and read this information, and if I conclude that there is a material misstatement, 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

54. 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 qualified opinion, the

findings on the annual performance report and the findings on compliance with legislation included in this report.

55. The accounting officer and management did not perform adequate reviews on the financial and performance reporting and compliance with laws and regulations.

56. Consequence management was not implemented to deter non-performance and promote clean administration. The control environment remains concerning.

57. The basic accounting principles of daily and monthly accounting and reconciling of transactions were not adequately implemented and monitored by management.

58. The accounting officer did not review the financial statements and the annual performance report for accuracy and completeness.

59. Internal controls for monitoring compliance with laws and regulations were ineffective as they do not detect and prevent instances of non-compliance with applicable laws and regulations.

60. The internal control monitoring mechanisms of the municipality were not functioning optimally, as many control weaknesses are only discovered during the audit of the financial statements and performance information.

Material irregularities

61. In accordance with the PAA and the material irregularity regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of the material irregularities reported in the previous year's auditor's report.

Status of previously reported material irregularities

Revenue due to municipality not calculated on a monthly basis

62. The municipality did not read water meters for the purposes of revenue billing on a monthly basis. This resulted in a significant number of accounts being without variables to enable estimations. The district then estimated consumption for the affected consumers to be zero. This resulted in non-compliance with section 64 (2) (b) of the MFMA which states that, the accounting officer must take all reasonable steps to ensure that revenue due to the municipality is calculated on a monthly basis.

63. The non-compliance has resulted in a likely material financial loss. Further losses are likely to occur, as the municipality does not perform readings monthly.

64. The accounting officer was notified of the material irregularity on 2 August 2021 and invited to make a written submission on the actions taken and that will be taken to address the matter. The following actions have been taken to address the material irregularity:

- The municipality requested the Development Bank of South Africa (DBSA) to assist with a revenue enhancement strategy, which will focus on database cleansing, tariff review and structuring along with audit of water meters.

- DBSA agreed to assist the municipality through a grant and both parties have entered into a grant agreement signed on 19 April 2021

- DBSA evaluated of the tender submissions received in respect of revenue enhancement and appointmented the successful Service Provider to undertake Revenue Enhancement process.

- The municipality and DBSA have engaged on a pilot project for implementing revenue enhancement processes. The pilot project has commenced on 31 May 2022 around Thulamela local municipality to assess whether the project is feasible. If feasible, this project will be extended to other local municipalities within the Vhembe district.

67. The Revenue Enhancement support from the DBSA will be implemented over a period of 18 months. The date of the project inception, which was 31 May 2022, marked the beginning of the project

68. I will follow up the material irregularity during my next audit.

Prohibited investment with a mutual bank

65. Vhembe district municipality made investments since 12 of February 2015 with Venda Building Society Mutual Bank (VBS). At the time (12 March 2018) of placing VBS under curatorship, the municipality had investments amounting to R316 385 542 including interest.

66. The district municipality received a letter from the curator of VBS on 12 March 2018 informing them that VBS mutual bank is under curatorship and that all deposits with VBS are frozen until such time the bank is in a position to repay these deposits.

67. In terms of regulation 6 of the municipal investment regulations, a municipality may only invest deposits with banks registered in terms of the Banks Act 94 of 1990 (Bank Act). The district municipality did not comply with municipal investment regulations, as VBS Mutual Bank is not registered in terms of the Banks Act.

68. This non-compliance is likely to result in a financial loss for the municipality if the amount invested is not recovered in full from the estate of VBS.

69. The accounting officer was notified of the material irregularity on 19 October 2021 and invited to make a written submission on the actions taken and that will be taken to address the matter. The following actions have been taken to address the material irregularity:

    - Council suspended the accounting officer and the chief financial officer with immediate effect on 30 October 2018. The suspension was with full pay for a period of three months ending 30 January 2019.

    - Disciplinary steps were taken against accounting officer and the chief financial officer and both their services were terminated after settlement agreements entered into on 18 February 2019 and 27 February 2019 respectively.

    - The municipality has lodged a claim with the curator as a creditor on 6 November 2019 in the Polokwane High Court before the master of the high court.

- A follow up was made with management on 8 September 2022, wherein they responded on 13 September 2022.
- Based on management's response and corroboration of evidence, it was confirmed that the municipality received R 22 146 983 from VBS curators on 4 February 2022. The municipality continues to be registered with the curator for furthered recoveries.
- There is ongoing investigation by the Directorate for Priority Crime, investigations into the VBS matter: DPCI National Head Office Enquiry 06/01/2019.The investigation started on 6 January 2019.The municipality awaits the outcomes of the investigation.

70. I will follow up on the material irregularity during my next audit.

Auditor General

Polokwane

30 November 2022

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected development priorities and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:

   - identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
   - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
   - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
   - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the Vhembe District Municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease operating as a going concern
   - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and

other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.