Sekhukhune District Municipality
Private Bag X8611
Groblersdal
Limpopo
0470

Date: 25 February 2022

Reference: 60061REG20/21

Dear Madam

Report of the Auditor-General on the financial statements, annual performance report, compliance with legislation and other legal and regulatory requirements of Sekhukhune District Municipality for the year ended 30 June 2021

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act No. 25 of 2004 (PAA) read in conjunction with section 188 of the Constitution of the Republic of South Africa section 126(3) of the Municipal Finance Management Act 56 of 2003 (MFMA).
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and the annual performance report and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements, the annual performance report or our audit report on compliance with legislation. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
4. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
   - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements, annual performance report and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.

- The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.

5. Please notify the undersigned Business Executive / Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.

6. The confidentiality of information obtained in an engagement must be observed at all times. In terms of section 50 of the PAA and the International Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants *(including International Independence Standards*), the AGSA, or an audit firm appointed in terms of section 25 of the PAA, may not disclose or make available any information obtained during an audit, other than the final auditor's report, to any third party unless this is to a legislature or internal committee of a legislature or a court in a criminal matter and the disclosure has been approved by the auditee and the Auditor-General.

7. Until the steps described in paragraphs 2 and 4 of this document are completed and the annual report is tabled as required by section 127(2) of the MFMA, the audit report is not a final and public document and you are therefore requested to treat it as confidential.

8. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed

MD Tjale
....
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Report of the auditor-general to Limpopo Provincial Legislature and Council on Sekhukhune District Muncipality

Report on the audit of the separate financial statements

Qualified opinion

1. I have audited the separate financial statements of the Sekhukhune 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, and cash flow statements and statement of comparison of budget information and actial 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 the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the separate financial statements present fairly, in all material respects, the financial position of the Sekhukhune District Municipality as at 30 June 2021, 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 of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and the Division of Revenue Act, 2020 (Act No. 4 of 2020) (DoRA).

Basis for qualified opinion

Property, plant and equipment

3. During 2019, the municipality did not accurately disclose assets under construction at the reporting period in accordance with GRAP 17, *Property, plant and equipment*. The work in progress recognised at year end was not adequately supported by source documents. The effect on the financial statements was that property, plant and equipment as disclosed in note 3 to the financial statements was misstated by R45 814 924. My audit opinion on the financial statements for the period ended 30 June 2019 was modified accordingly. My opinion on the current year financial statements was also modified because of the effect of this matter on the opening balance of work in progress for the current period.

4. The municipality did not accurately disclose assets under construction at the reporting period in accordance with GRAP 17, *Property, plant and equipment*. The work in progress recognised in the opening balance was not all accounted for. The effect on the financial statements was that property, plant and equipment as disclosed in note 3 to the financial statements was understated by R54 126 947 (2020: R298 216 707).

5. Work-in-progress amounting to R75 723 195 included in note 3 to the financial statements was incorrectly classified as work in progress, while it was available for use in terms of GRAP 17, *Property, plant and equipment*. This resulted in the overstatement of work in progress and

understatement of completed assets by R75 723 195. Additionally, there was a resultant impact on surplus for the year and accumulated surplus.

6. During 2020, the municipality did not accurately disclose impairment loss for assets under construction, as differences were noted between the amount disclosed and the accounting records. This resulted in understatement of work in progress by R20 671 993. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the impairment loss.

7. I was unable to obtain sufficient appropriate audit evidence that impairment loss was properly accounted for, due to incomplete supporting documentation for the amount disclosed. I was unable to confirm the impairment of assets by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to impairment loss stated at R39 654 158 in the financial statements.

8. The municipality did not adequately review the useful lives of property, plant and equipment at the reporting date for current year and the prior year in accordance with GRAP 17, *Property, plant and equipment*. As a result, assets with an unquantified amount had a zero and approaching zero net carrying amount whilst still being in use. I was unable to determine the impact on the net carrying amount of assets as it was impracticable to do so.

9. During 2019, the municipality did not capitalise costs which are directly related to bringing assets to the location and in such a condition for it to be capable of operating in the manner intended by management in accordance with GRAP 17, *Property, plant and equipment*. The municipality expensed the costs of assets constructed during the year which were supposed to be capitalised. Consequently, repairs and maintenance was overstated and property, plant and equipment was understated by R43 030 269. As a result, surplus for the year was understated by the same amount. My audit opinion on the financial statements for the period ended 30 June 2019 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the accumulated surplus for the current period.

Prior year adjustments

10. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figures for the current and previous year. As described in note 36 (2020: note 37) to the financial statements, the restatements were made to rectify previous year misstatements, but the restatements could not be substantiated by supporting audit evidence. I was unable to confirm the restatements by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the corresponding figures stated in the financial statements

Bulk purchases

11. Included in bulk purchases of R199 192 933 (2020: R115 165 701) is an unquantifiable amount relating to the cost of inventory on hand at sub-stores. Adequate internal controls were not in place to account for inventory issued to sub-stores. I was unable to confirm the overstatement of bulk purchases by alternative means. Consequently, I was unable to determine whether any adjustments to bulk purchases stated at R199 192 933 (2020: R115 165 701) were necessary.

Employee related costs

12. During 2020, an amount of R23 917 368 for allowances was included in employee related cost. The municipality did not have adequate internal controls to maintain records of employee related cost for allowances. I was unable to obtain sufficient appropriate audit evidence to substantiate the allowances in note 21 to the financial statements. Consequently, I was unable to determine whether any adjustments to employee related cost stated at R397 644 268 were necessary. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the employee related costs.

Net cash flows from operating activities

13. The municipalty did not correctly prepare and disclose the net cash flows from operating activities as required by Standards of GRAP 2, *Cash flow statements*. I identified a difference of R71 403 420 between the net cash flows from operating activities and cash paid to suppliers and employees. Consequently, net cash flows from operating activities as stated at R632 274 958 in the financial statements, is misstated.

Inventory

14. I was unable to obtain sufficient appropriate audit evidence that inventorywas properly accounted for, as the municipality did not maintain an adequate system of internal controls over record keeping of inventory on hand at sub-stores. I was unable to confirm the inventory by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to inventory stated at R30 849 411 in the financial statements.

Revenue from non-exchange transactions

15. I identified differences amounting to R21 269 604 between the underlying records and financial statements for government grants and subsidies. Consequently, I was unable to determine whether any adjustments to government grants and subsidies stated at R1 502 648 813 were necessary. Additionally, there was a resultant impact on surplus for the year and accumulated surplus.

Commitments

16. The municipality did not account for contractual commitments on certain work-in-progress projects as commitments in the annual financial statements, in accordance with GRAP 17, *Property, plant and equipment*. I was unable to confirm the commitments by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to commitments stated at R348 083 252 in the financial statements.

Context for the opinion

17. 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.

18. 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.

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

Emphasis of matters

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

Contingent liabilities

21. With reference to note 34 to the financial statements, the municipality is a defendant in various legal claims involving individuals and companies. The municipality is opposing these claims. The ultimate outcome of these matters could not be determined and no provision for any liability that may result was made in the financial statements.

Material losses (water distribution)

22. As disclosed in note 43 to the annual financial statements, material water losses to the amount of R88 838 572 (2019-20: R62 170 568) was incurred.

Unauthorised expenditure

23. As disclosed in note 40 of the annual financial statements, unauthorised expenditure amounting to R11 782 032 was incurred, as the municipality overspent on the budget

Fruitless and wasteful expenditure

24. As disclosed in note 41 of the annual financial statements, fruitless and wasteful expenditure amounting to R279 044 was incurred as a result of two fraudulent payments.

Irregular expenditure

25. As disclosed in note 42 of the annual financial statements, irregular expenditure to the amount of R214 237 255 was incurred as a result of non-compliance with procurement processes.

Other matters

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

Unaudited supplementary schedules

27. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them

Responsibilities of the accounting officer's for the financial statements

28. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with Generally Recognised Accounting Practice and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and for such internal control as the accounting officer determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

29. In preparing the separate financial statements, the accounting officer is responsible for assessing Sekhukhune District 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

30. 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.

31. 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

32. 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.

33. 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/measures included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures also do not extend to any disclosures or assertions relating to 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.

34. 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 1 – Basic Service Delivery	x – x

35. 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.

36. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

Development Priority 1 – Basic service delivery

Reported achievements were not consistent with the planned and reported indicator and target

Various indicators

37. The reported achievements differed from the planned indicators and target

Planned indicators per annual planning document	Reported indicators per APR	Planned targets per annual planning document	Planned targets per APR	Reported actual achievement per APR	Sub-programme
Number of boreholes drilled, tested and equipped, km of water pipeline constructed and number of storages installed.	Number of boreholes drilled, tested and equipped, km of water pipeline constructed and number of storages installed.	1 borehole drilled, tested and equipped, 1 200 km of water pipeline constructed and 2 storages installed.	1 borehole drilled, tested and equipped, 1 200 km of water pipeline constructed and 2 storages installed.	Contractor appointed	Equitable share

Number of boreholes drilled, tested and equipped, km of water pipeline constructed and number of storages installed.	Number of boreholes drilled, tested and equipped, km of water pipeline constructed and number of storages installed.	1 borehole drilled, tested and equipped, 1 200 km of water pipeline constructed and 2 storages installed.	1 borehole drilled, tested and equipped, 1 200 km of water pipeline constructed and 2 storages installed.	Contractor appointed	Equitable share
Number of boreholes drilled, tested and equipped, km of water pipeline constructed and number of storages installed	Number of boreholes drilled, tested and equipped, km of water pipeline constructed and number of storages installed	1 borehole drilled, tested and equipped, 800km of water pipeline constructed.	1 borehole drilled, tested and equipped, 800km of water pipeline constructed.	Contractor appointed	Equitable share
Number of boreholes drilled, tested equipped and km of water pipeline constructed and number of storages installed	Number of boreholes drilled, tested equipped and km of water pipeline constructed and number of storages installed	1 borehole drilled, tested equipped and 800km of water pipeline constructed and 2 installed	1 borehole drilled, tested equipped and 800km of water pipeline constructed and 2installed	Contractor appointed	Equitable share
Number of boreholes drilled, tested equipped and connected to existing concrete reservoir.	Number of boreholes drilled, tested equipped and connected to existing concrete reservoir.	3 boreholes drilled, tested equipped and connected to existing concrete reservoir.	3 boreholes drilled, tested equipped and connected to existing concrete reservoir.	Contractor appointed	Equitable share
Km of rising main pipeline constructed	Km of rising main pipeline constructed.	4km of rising main pipeline constructed.	4km of rising main pipeline constructed.	Contractor appointed	Equitable share

Number of boreholes drilled, tested and equipped, km of water pipeline constructed and number of storages installed.	Number of boreholes drilled, Tested and equipped, km of water pipeline constructed and number of storages installed.	2 boreholes drilled, tested and equipped, 4km of water pipeline constructed and 3 storages installed.	2 boreholes drilled, tested and equipped, 4km of water pipeline constructed and 3 storages installed.	Contractor appointed	Equitable share
Number of existing boreholes tested, equipped and connected existing concrete reservoirs	Number of existing boreholes tested, equipped and connected existing concrete reservoirs	2 existing boreholes tested, equipped and connected existing concrete reservoirs	2 existing boreholes tested, equipped and connected existing concrete reservoirs	Contractor appointed	Equitable share
Number of boreholes drilled, tested and equipped, km of water pipeline constructed and number of storages installed.	Number of boreholes drilled, tested and equipped, km of water pipeline constructed and number of storages installed.	2 boreholes drilled, tested and equipped, 4 km of water pipeline constructed and 3 storages installed.	2 boreholes drilled, tested and equipped, 4 km of water pipeline constructed and 3 storages installed.	Contractor appointed	Equitable share
Number of boreholes drilled, tested equipped and connected to existing concrete reservoir.	Number of boreholes drilled, tested equipped and connected to existing concrete reservoir.	3 boreholes drilled, tested equipped and connected to existing concrete reservoir.	3 boreholes drilled, tested equipped and connected to existing concrete reservoir.	Contractor appointed	Equitable share
Number of boreholes drilled, tested equipped and connected to existing concrete reservoir.	Number of boreholes drilled, tested equipped and connected to existing concrete reservoir.	3 boreholes drilled, tested equipped and connected to existing concrete reservoir.	3 boreholes drilled, tested equipped and connected to existing concrete reservoir.	Contractor appointed	Equitable share

Number of boreholes to be equipped and pipeline installation	Number of boreholes to be equipped and pipeline installation	3 boreholes equipped 2,5km pipeline installation	3 boreholes equipped and 2,5km pipeline Installation	Contractor appointed	MIG
Number of boreholes to be equipped and pipeline installation	Number of boreholes to be equipped and pipeline installation	1 borehole installed, 4,1 km pipeline installed	1 boreholes equipped and 4,1 km pipeline installed	Contractor appointed	MIG
Number of boreholes to be equipped and pipeline installation	Number of boreholes to be equipped and pipeline installation	1 borehole installed and 2,5km pipeline installed	2 boreholes installed and 2,5km pipeline installed	Contractor appointed	MIG
Number of boreholes to be equipped and pipeline installation	Number of boreholes to be equipped and pipeline installation	1 borehole installed, 4km pipeline installed	1 borehole installed and 4km pipeline installed	Contractor appointed	MIG
Number of boreholes to be equipped and pipeline installation	Number of boreholes to be equipped and pipeline installation	one borehole installed , 1,3km pipeline installed	one borehole installed and 1,3km pipeline installed	Contractor appointed	MIG
Number of boreholes to be equipped and pipeline installation	Number of boreholes to be equipped and pipeline installation	one borehole installed,290m pipelibe installed	one borehole installed and 290m pipeline installed	Contractor appointed	MIG
Number of boreholes to be equipped and pipeline installation	Number of boreholes to be equipped and pipeline installation	1 borehole installed, 600m pipeline installed	1 borehole installed and 600m pipeline installed	Contractor appointed	MIG

Number of boreholes to be equipped and pipeline installation	Number of boreholes to be equipped and pipeline installation	1 borehole installed and 350m pipeline installed	1 borehole installed and 350m pipeline installed	Contractor appointed	MIG
Kilometres of bulk water supply pipeline commissioned and pump station installed	Km of bulk pipeline constructed and number of reverse osmosis water treatment package plant and storage tank installed.	2 Kilometres of Zaaiplaas bulk water supply pipeline commissioned and 1 pump station installed	2 Kilometres of Zaaiplaas bulk water supply pipeline commissioned and 1 pump station installed	0 km	MIG
Km of bulk pipeline constructed and number of reverse osmosis water treatment package plant and storage tank installed.	Km of bulk pipeline constructed and number of reverse osmosis water treatment package plant and storage tank installed.	1,6 kilometers of bulk pipeline constructed and 1 reverse osmosis water treatment package plant and 1 storage tank installed	1,6 kilometers of bulk pipeline constructed and 1 reverse osmosis water treatment package plant and 1 storage tank installed	0 RO Package plant completed	WSIG
Number of km of water pipeline constructed and number of elevated tank installed	Number of km of water pipeline constructed and number of elevated tank installed	7 km of water pipeline constructed and 1 elevated tank installed	7 km of water pipeline constructed and 1 elevated tank installed	6,6 km of water pipeline completed, 12 communal stand pipes and 0 elevated tank installed but material delivered on site	WSIG

Number of kilometres of bulk water supply pipeline testing	Number of kilometres of bulk water supply pipeline testing	20 kilometres of bulk water supply pipeline testing	20 kilometres of bulk water supply pipeline testing	No progress as project was stopped by affected stakeholder's interference (business forum). Stakeholder meeting are held bi weekly to resolve the impasses	RBIG
Number of kilometres of bulk water supply pipeline assessed and refurbished	Number of kilometres of bulk water supply pipeline assessed and refurbished	14 kilometres of bulk water supply pipeline assessed and refurbished	14 kilometres of bulk water supply pipeline assessed and refurbished	No progress as project was stopped by affected stakeholder's interference (business forum). Stakeholder meeting are held bi weekly to resolve the impasses	RBIG
Number of kilometres of bulk water supply pipeline tested and commissioned	Number of kilometres of bulk water supply pipeline tested and commissioned	9km bulk water supply pipeline tested and commissioned	9km bulk water supply pipeline tested and commissioned		RBIG

Number of Mechanical and Electrical (M&E) components installed for the extensions to the Groblersdal water treatment works and pump station	Number of Mechanical and Electrical (M&E) components installed for the extensions to the Groblersdal water treatment works and pump station	2 Mechanical and Electrical (M&E) components installed for the extensions to the Groblersdal water treatment works and pump station	2 Mechanical and Electrical (M&E) components installed for the extensions to the Groblersdal water treatment works and pump station	No progress as project was stopped by affected stakeholder's interference business forum). Stakeholder meeting are held bi weekly to resolve the impasses	RBIG

Reported indicators and/or targets were not consistent or complete when compared with planned indicators and/or targets

38. The reported target of 1 Package Plant installed VO installation of 156KL storage steel tank did not agree with the planned target of 1 Package plant installed as per the approved in the service delivery budget implementation plan.

Performance indicators were not verifiable

Various indicators

39. The achievements below were reported in the annual performance report for the listed indicators. However, some supporting evidence provided materially differed from the reported achievement, while in other instances I was unable to obtain sufficient appropriate audit evidence. 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 further adjustments were required to these reported achievements.

Indicator	Target
Number of procurement material and number of site establishment (RBIG)	1 procurement material and 1 site establishment
Kilometers Zaaipłaas pipeline commissioned and pump station installed (MIG)	2 Kilometers Zaaipłaas pipeline commissioned and pump station installed
Number of boreholes drilled, tested and equipped, km of water pipeline constructed and number of storages (Equitable)	1 boreholes drilled, tested and equipped, 1200 km of water pipeline constructed and 2 storages installed.
Number of boreholes drilled, tested and equipped and connected to existing concrete reservoir (Equitable)	1 boreholes drilled, tested and equipped, 1200 km of water pipeline constructed and 2 storages installed.

Number of boreholes drilled, tested and equipped, km of water pipeline constructed and number of storages installed.(Equitable)	1 boreholes drilled, tested and equipped, 800 km of water pipeline constructed
Number of boreholes drilled, tested and equipped, km of water pipeline constructed and number of storages installed.(Equitable)	1 boreholes drilled, tested and equipped, 1200 km of water pipeline constructed and two (2) installed.
Number of boreholes drilled, tested and equipped and connected to existing concrete reservoir (Equitable)	3 boreholes drilled, tested and equipped and connected to existing concrete reservoir
Km of rising main pipeline constructed. (Equitable)	4 Km of rising main pipeline constructed
Number of boreholes drilled, Tested and equipped, km of water pipeline constructed and number of storages installed. (Equitable)	2 boreholes drilled, tested and equipped, 4 km of water pipeline constructed and 3 storages installed.
Number of existing boreholes tested, equipped and connected existing concrete reservoirs	Two (2) existing boreholes tested, equipped and connected existing concrete reservoirs
Number of boreholes drilled, tested and equipped, km of water pipeline constructed and number of storages installed	2 boreholes drilled, tested and equipped, 4 km of water pipeline constructed and 3 storages installed.
Number of boreholes drilled, tested equipped and connected to existing concrete reservoir.	3 boreholes drilled, tested equipped and connected to existing concrete reservoir.
Number of boreholes drilled, tested equipped and connected to existing concrete reservoir.	3 boreholes drilled, tested equipped and connected to existing concrete reservoir.
Number of kilometers of bulk pipeline constructed, testing and commissioning (RBIG)	1 kilometers of bulk water pipeline constructed, 4 testing and commissioning
Number of procurement material and number of site establishment (RBIG)	1 procurement material and 1 site establishment
Number of kilometers bulk water supply pipeline and number of concrete reservoir constructed (RBIG)	4 kilometers bulk water supply pipeline and 1 concrete reservoir constructed
Kilometers of water pipeline constructed, number of reservoir completed, number of WTW completed (MIG)	0,4 Km of bulk water pipeline constructed, 1 reservoir completed, 1 WTW completed

Reported achievement did not agree with the evidence provided, i.e. not accurate

Various indicators

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

Indicator	Target	Achievement as per APR	Audited	Difference
Kilometres of water reticulation pipeline completed	8 Km of water pipeline completed	6 Km of water pipeline completed	2,8 Km pipeline was completed	3.2 Km pipeline constructed
Kilometres of water pipeline constructed and number of reservoirs completed	10 Km of water pipeline and 4 reservoirs completed	12 Km of water pipeline and 0 reservoirs completed	7 Km water pipeline and 0 reservoirs completed	5 Km water pipeline
Kilometres of water pipeline and number of reservoirs completed	36 Km of bulk and water reticulation pipeline and 5 out of 8 reservoirs completed, 1 package plant completed	26 Km of bulk and water reticulation pipeline and 0 out of 8 reservoirs completed, 1 package plant completed	0 of bulk and water reticulation pipeline and 0 reservoirs completed, 0 package plant completed	26 Km of bulk and water reticulation pipeline and 1 package plant completed
Number of VIP sanitation units completed	915 VIP sanitation units completed	915 VIP sanitation units completed	700 VIP sanitation units completed	215 VIP sanitation units completed
Number of water quality reports generated	12 water quality reports generated	8 water quality reports generated	5 water quality reports generated	3 water quality reports generated
Kilolitres (KL) of water supplied through water carts trucks	12 780 Kl of water supplied through water carts trucks	12 780 Kl of water supplied through water carts trucks	9 730 Kl of water supplied through water carts trucks	3 052 Kl of water supplied through water carts trucks
Number of registered sanitation incidents resolved within 14 days	700 registered sanitation incidents resolved within 14 days	81	69	(12)

Number registered water incidents resolved within 14 days	5000 registered water incidents resolved within 14 days	416	367	(49)

Reported achievement did not agree with the evidence provided, i.e. not valid

Various indicators

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

Indicator	Target	Achievement as per APR	Audited	Difference
Kilometres of water reticulation pipeline completed	8 Km of water pipeline completed	6 Km of water pipeline completed	2,8 Km pipeline was completed	3.2 km pipeline constructed
kilometres of water pipeline constructed and number of reservoirs completed	10 Km of water pipeline and 4 reservoirs completed	12 Km of water pipeline and 0 reservoirs completed	7 Km water pipeline and 0 reservoirs completed	5 Km water pipeline
Kilometres of water pipeline and number of reservoirs completed	36 Km of bulk and water reticulation pipeline and 5 out of 8 reservoirs completed, 1 package plant completed	26 Km of bulk and water reticulation pipeline and 0 out of 8 reservoirs completed, 1 package plant completed	0 of bulk and water reticulation pipeline and 0 reservoirs completed, 0 package plant completed	26 Km of bulk and water reticulation pipeline and 1 package plant completed
Number of water quality reports generated	12 water quality reports generated	8 water quality reports generated	5 water quality reports generated	3 water quality reports generated
Number of VIP sanitation units completed	915 VIP sanitation units completed	915 VIP sanitation units completed	700 VIP sanitation units completed	215 VIP sanitation units completed

Indicator	Target	Achievement as per APR	Audited	Details as per water tankering report	Difference
Kilolitres (KL) of water supplied through water carts trucks	12 780 Kl of water supplied through water carts trucks	12 780 Kl of water supplied through water carts trucks	266 KL of water supplied through water carts trucks	308 KL of water supplied through water carts trucks	-42KL of water supplied through water carts trucks

Reported achievement did not agree with the evidence provided, i.e. not complete

Various indicators

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

Indicator	Target	Achievement as per APR	Audited	Difference
Number of water quality reports generated	12 water quality reports generated	8 water quality reports generated	11 water quality reports generated	3 water quality reports generated
Number of plants participating in blue certification programme	15 WTW participating in blue drop certification programme	7 WTW participating in blue drop certification programme	18 WTW participating in blue drop certification programme	11 WTW participating in blue drop certification programme

Indicator	Target	Achievement as per APR	Audited	Details as per water tankering report	Difference
Kilolitres (KL) of water supplied through water carts trucks	12 780 Kl of water supplied through water carts trucks	12 780 Kl of water supplied through water carts trucks	406 KL of water supplied through water carts trucks	280 KL of water supplied through water carts trucks	126 KL of water supplied through water carts trucks

Indicator	Target	Months where Activity report was not submitted
Number of registered sanitation incidents resolved within 14 days	700 registered sanitation incidents resolved within 14 days	September 2020, November 2020, January 2021 and March 2021
Number registered water incidents resolved within 14 days	5000 registered water incidents resolved within 14 days	September 2020, November 2020, January 2021 and March 2021

Other matter

43. I draw attention to the matter below.

Achievement of planned targets

44. Refer to the annual performance report on pages … to … 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

45. 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.

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

Financial statements, performance reports and annual report

47. 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, which resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

48. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R279 044 as disclosed in note 41 to the annual financial statements, in contravention of

section 62(1)(d) of the MFMA. The disclosed fruitless and wasteful expenditure was caused by two fraudulent payments.

49. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R11 782 032, as disclosed in note 40 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

50. Reasonable steps were not taken to prevent irregular expenditure amounting to R214 237 255 as disclosed in note 44 to the annual financial statements, as required by section 62(1)(d) of the MFMA.

Consequence management

51. 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.

52. Irregular 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 .

53. 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

54. A performance management system was not adopted, as required by municipal planning and performance management regulation 8.

Procurement and contract management

55. Sufficient appropriate audit evidence could not be obtained that written quotations were accepted from prospective providers who were on the list of accredited providers and met the listing requirements as prescribed by the supply chain management (SCM) policy, in contravention of SCM regulations 16(b) and 17(1)(b).

56. Some of the quotations were accepted from bidders whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43. Similar non-compliance was also reported in the prior year.

57. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1). Similar non-compliance was also reported in the prior year.

58. 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).

59. The preference point system was not applied some of the procurement of goods and services above R30 000 as required by section 2(1)(a) of the Preferential Procurement Policy

Framework Act, 2000 (Act No 5 of 2000) (PPPFA). Similar non-compliance was also reported in the prior year.

60. Sufficient appropriate audit evidence could not be obtained that 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. Similar non-compliance was also reported in the prior year.

61. Sufficient appropriate audit evidence could not be obtained that quotations were awarded to bidders that scored the highest points in the evaluation process as required by section 2(1)(f) of the Preferential Procurement Policy Framework Act and 2017 preferential procurement regulations 11. Similar non-compliance was also reported in the prior year.

62. Some of the invitation to tender for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2).

63. Sufficient appropriate audit evidence could not be obtained that some of the 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).

64. 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).

65. 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 with section 112(1)(j) of the MFMA and SCM regulation 44.

Other information

66. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the audit committee's. 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.

67. 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.

68. 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.

Internal control deficiencies

69. 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.

70. Although the leadership reviewed the annual financial statements and the annual performance report prior to their submission for audit, the internal control environment is not operating effectively as a number of misstatements were still identified

71. There was no adequate review and monitoring of compliance with applicable laws and regulations

72. There was no adequate review and monitoring of compliance with applicable laws and regulations

73. The leadership did not have an adequate record keeping system to enable reliable reporting on performance achievement and retrieving of supporting information used to prepare the annual financial statements

Other reports

74. 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.

75. Attorneys were appointed to assist with the recovery of an amount of R22 210 223 previously paid to service providers for services not yet rendered (VIP sanitation projects), relating to the 2013-14 reporting period. The money paid to the service providers was still under investigation at the date of this audit report.

76. The municipality erroneously paid an amount of R5 452 014 into incorrect bank accounts during July 2018. As a result, investigations are being conducted by management to determine the liable parties.

77. The municipality paid an amount of R12 084 011 into an incorrect bank account during the 2018-19 financial year. As a result, investigations are being conducted by management to determine the liable parties.

78. Attorneys were appointed to assist with the investigations of R26 000 000 relating to the irregular appointment of eight service providers relating to covid-19 expenditure.

Auditor-General

Polokwane

25 February 2022

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

79. 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

80. 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 Sekhukhune District Munciicpality 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

81. 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.

82. 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