Report of the auditor-general to Limpopo Provincial Legislature and the council of Ba-Phalaborwa Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Ba-Phalaborwa Local 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, cash flow statement 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 the effects and 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 Ba-Phalaborwa 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 of South Africa, 2020 (Act No 4 of 2020) (DoRA).

Basis for qualified opinion

Cash and cash equivalents

3. I was unable to obtain sufficient appropriate audit evidence for cash and cash equivalents, as the balance did not agree to the general ledger and bank reconciliations were not prepared to reconcile the differences between the 30 June 2021 bank statements and underlying records. I was unable to confirm cash and cash equivalents by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to cash and cash equivalents stated at R69 319 706 in the financial statements. Since the cash and cash equivalents balance is included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R79 975 996 in the financial statements.

Receivables from exchange transations

4. I was unable to obtain sufficient appropriate audit evidence for sundries included in receivables from exchange transactions, due to a lack of reconciliation, poor status of the accounting records and non-submission of the underlying records in support of sundries. I was unable to confirm the sundries by alternative means. Consequently, I was unable to determine whether any adjustment was neccesary to receivables from exchange transactions stated at R427 338 980 (2020: R259 634 106) in note 10 in the financial statements. Since the receivables balance is included in the determination of net cash flows from operating activities

reported in the cash flow statement, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R79 975 996 in the financial statements. Additionally, the non-submission of the underlying records in support of the sundries had an impact on the allowance for impairment and debt impairment stated at R216 144 533 and R39 994 029, respectively, in note 10 and 38 in the financial statements.

Receivables from non-exchange transations

5. I was unable to obtain sufficient appropriate audit evidence for consumer debtors – traffic fines, due to poor status of the accounting records and non-submission of the underlying records in support of the gross balance of R30 972 858 (2020: R30 689 373). I was unable to confirm the consumer debtors - traffic fines by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the net consumer debtors – traffic fines stated at R322 720 (2020: R57 660) in note 9 in the financial statements. Since the receivables balance is included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R79 975 996 in the financial statements. Additionally, the non-submission of the underlying records in support of the consumer debtors – traffic fines had an impact on the allowance for impairment and debt impairment stated at R399 915 749 and R39 994 029, respectively, in note 9 and 38 in the financial statements.

Payables from exchange transations

6. I was unable to obtain sufficient appropriate audit evidence that payables from exchange transactions had been properly accounted for, due to the status of the accounting records and non-submission of underlying records in support of trade payables, sundry payables, payroll accruals and unallocated deposits received. I was unable to confirm these payables by alternative means. Consequently, I was unable to determine whether any adjustments were neccesary to payables from exchange transactions stated at R547 471 366 in note 14 to the financial statements. Since the payables balance is included in the determination of net cash flows from operating activities reported in the cash flow statement, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R79 975 996 in the financial statements.

7. The municipality did not establish adequate internal controls to reconcile the Mopani District Municipality payable. I have identified unexplained differences between the municipality's records and Mopani District Municipality's records amounting to R176 924 304. I have further noted that the payable was not correctly accounted for in accordance with the service level agreement between the municipality and the district municipality, resulting in a difference of R128 450 873. I was unable to audit the difference by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the Mopani District Municipality payable stated at R295 979 523 in the financial statements.

8. The municipality did not recognise amounts received in advance meeting the definition of a liability in accordance with GRAP 1, *Presentation of financial statements*. The amounts were set off against receivables. Consequently, trade payables from exchange transactions and receivables were understated by R23 571 221 in the financial statements.

Investment property

9. The municipality applied the incorrect rate to calculate the fair value adjustment of investment properties. Consequently, investment property and fair value adjustments were overstated by R224 761 387 in the financial statements. Additionally, there was an impact on the surplus for the period.

Property, plant and equipment

10. The municipality did not disclose information in note 5 to the financial statements on amounts that are included in capital work-in-progress that are long outstanding or relate to projects that have been stopped, and whether impairment has been considered in accordance with GRAP 17, *Property, plant and equipment*.

General expenses

11. The municipality did not implement the municipal Standard Chart of Accounts (mSCOA) for the uniform recording and classification of financial information at a transaction level, as expenditure transactions have been incorrectly recognised as general expenses. Consequently, general expenses were overstated by R16 053 494, contracted services were understated by R36 100 183 and actuarial loss on landfill site was understated by R20 046 689 in the financial statements.

Agency services

12. The municipality did not apply the base fee formula per contract with Mopani District Municipality to recognise the commision. Consequently, agency service and receivables from exchange transactions were understated by R18 021 677 in note 24 to the financial statements. Additionally, there was an impact on the surplus for the period.

Contingencies

13. The municipality did not consider contingencies in its assessment of claims received, resulting in contingencies being understated by R19 603 294. In addition, I was unable to obtain sufficient appropriate audit evidence that contingencies had been properly accounted for, due to a difference of R71 985 294 between note 46 and the underlying records. I was unable to confirm contingencies by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to contingencies disclosed in note 46 in the financial statement.

Unauthorised expenditure

14. I was unable to obtain sufficient appropriate audit evidence that unauthorised expenditure for the current year of R27 120 364 had been properly disclosed, due to the non-submission of the underlying record outlining the actual amounts per vote, to determine the unauthorised expenditure for the year. The municipality used the standard items of the budget to determine the unauthorised expenditure, contrary to the definitions of unauthorised expenditure and vote in section 1(1) of the MFMA. I was unable to confirm the unauthorised expenditure by alternative means. Consequently, I was unable to determine whether any adjustment was

necessary to unauthorised expenditure stated at R110 104 739 in note 52 to the financial statements.

Commitments

15. The municipality did not recognise all capital commitments in accordance with GRAP 17, *Property, plant and equipment*. Contractual commitments relating to work-in-progress were not recognised. Commitments were understated by R9 907 931 in the financial statements.

Cash flow statement

16. The municipality did not correctly prepare and disclose the net cash flows from operating activities as required by GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flows from operating activities. I was unable to determine the full extent of the errors in the net cash flows from operating activities as it was impractible to do so. Consequently, I was unable to determine whether any adjustments to cash flows from operating activities as stated as R79 975 996 in the financial statements were necessary. This has an impact on the cash and cash equivalents at the end of the year.

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.

Material uncertainty relating to going concern/ financial sustainability

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

21. I draw attention to the statement of financial position to the financial statements, which indicates that as 30 June 2021 the municipality's current liabilities exceeded its current assets by R202 256 440. This event or condition, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Other matter

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

Unaudited disclosure notes

23. In terms of section 125(2)(e) of the MFMA, the municipaality 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

24. 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 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.

25. 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

26. 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.

27. 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

28. 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.

29. 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.

30. 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 key performance area presented in the municipality's annual performance report for the year ended 30 June 2021:

Key performance area (KPA)	Pages in the annual performance report
KPA 2: Basic service delivery	x – x

31. 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.

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

Basic service delivery

Number of HH with access to electricity in Municipal Licensed area (Phalaborwa Town) by 30 June 2021

33. The planned target of 5 274 for this indicator was not specific in clearly identifying the nature and required level of performance.

Various indicators

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

Indicator description	Reported achievement
Number of indigent households receiving free basic electricity by 30/06/2021	506
Number of indigent Households receiving free basic waste removal service by 30/06/2021	506

Various indicators

35. I was unable to obtain sufficient appropriate audit evidence for the achievement in the annual performance report for the indicators listed below, 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.

Indicator description	Planned target	Reported achievement
Number of urban Households with access to basic waste removal services (Phalaborwa town, Gravellote, Namakgale and Lulekani) by 30/06/2021	12 631	12 605
Number of rural Households with access to basic waste removal services (Makhushane/ Mashishimale) by 30/06/2021	17 415	17 556

Other matters

36. I draw attention to the matters below.

Achievement of planned targets

37. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year 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 31 to 33 of this report.

Adjustment of material misstatements

38. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of key performace area: basic service delivery. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and 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

39. 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.

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

Annual financial statements

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

Expenditure management

42. Reasonable steps were not taken to prevent irregular expenditure amounting to R28 553 529, as disclosed in note 54 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by non-compliance supply chain management regulations.

Revenue management

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

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

Procurement and contract management

45. Some of the contracts were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by supply chain management (SCM) Regulation 13(c).

46. Invitations 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). Similar non-compliance was also reported in the prior year.

47. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of the code of conduct for councillors issued in terms of the Municipal Systems Act, 2000 (Act No. 32 of 2000).

Consequence management

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

Other information

49. 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 key performance area presented in the annual performance report that have been specifically reported in this auditor's report.

50. 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.

51. 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 key performance area presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

52. 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

53. 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.

54. There is a slow response from senior management to improve the internal controls, prepare and submit credible financial statements and performance report.

55. The municipality did not have sufficient monitoring controls to ensure the proper implementation of the overall processes of reporting on predetermined objectives.

56. Consequence management was not effective, as the council did not investigate instances of irregular expenditure to determine whether any person was liable for the expenditure.

57. Senior management did not adequately oversee the operations of the municipality, as the financial statements and annual performance report contained material misstatements not detected by the municipality's own system of internal control.

58. Proper record keeping was not implemented to ensure that complete, relevant and accurate information was accessible and available to support financial and performance reporting.

59. Controls over daily and monthly processing, following up and reconciling of transactions were inadequate. Control accounts are not reconciled and monthly bank reconcilations not performed. Differences between the underlying records and the financial statement items had a detrimental impact on the outcome of the audit.

60. Internal controls for monitoring compliance with legislation were ineffective as it did not detect and prevent instances of non-compliance with legislation.

61. Risks were not sufficiently mitigated to address challenges at the municipality as evidenced by audit matters identified during the prior year's audit process.

Other reports

62. I draw attention to the following engagement conducted 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. This report did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

63. The South African Police Service's Serious Corruption Investigation Unit is investigating allegations of fraud, corruption and theft at the municipality. The investigation was on-going at the date of the audit report.

Auditor - General.

Polokwane

15 December 2021

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 Ba-Phalaborwa Local 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.