Report of the auditor-general to Limpopo Provincial Legislature and Council of Musina Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Musina Local 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, and cash flow statement and comparison of budget and actual amount 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 Musina Local Municipality as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with the 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

Receivables from non-exchange transactions

3. The municipality did not levy property rates within the municipal area based on a valuation roll that was accurately compiled, and in other instances no property rates were levied on some of the properties in the valuation roll. Consequently, receivables from non-exchange transactions (property rates) as stated as R48 010 275 in note 3.1 was understated by R14 459 115. Furthermore, I was unable to obtain sufficient appropriate audit evidence to confirm the balance of some property rates receivables levied on the properties that were not included in the valuation roll. Consequently, I was unable to determine whether any further adjustments relating to receivables from non-exchange transactions was necessary. Additionally, there was a consequential impact on the revenue from non-exchange transactions and deficit for the period.

4. I was unable to obtain sufficient appropriate evidence for receivables from non-exchange transactions (traffic fines) as the municipality did not maintain a detailed listing of the outstanding traffic fines as at year-end. I was unable to confirm the outstanding traffic fines by alternative means. Consequently, I was unable to determine whether any further adjustments relating to receivables from non-exchange transactions was necessary, as stated at R17 530 174 358 (2021: R14 927 560).

5. The municipality did not assess at the end of the financial year whether there is any objective evidence that receivables from non-exchange transactions (Organ of state) amounting to R 4 955 537 as disclosed in note 3.1.2 to the financial statements are impaired and did not create

a provision for impairment for long outstanding receivables, in accordance with GRAP 104, Financial instruments. Consequently, receivables from non-exchange transactions is overstated and provision for impairment was understated. I was unable to determine the value of the misstatement on receivables from non-exchange transactions and provision for impairment as it was impracticable to do so.

Receivables from exchange transactions

6. The municipality did not assess at the end of the financial year whether there is any objective evidence that receivables from exchange transactions (Organ of state) amounting to R 8 786 592 as disclosed in note 3.1.2 to the financial statements are impaired and did not create a provision for impairment for long outstanding receivables, in accordance with GRAP 104, Financial instruments. Consequently, receivables from exchange transactions is overstated and provision for impairment was understated. I was unable to determine the value of the misstatement on receivables from exchange transactions and provision for impairment as it was impracticable to do so.

Bulk purchases

7. I was unable to obtain sufficient appropriate audit evidence for bulk purchases as the municipality did not maintain proper financial records for bulk purchases prior to recording the purchases in the accounting records. I was unable to confirm the amount of bulk purchases by alternative means. Consequently, I was unable to determine whether any adjustments relating to bulk purchases stated at R137 919 076 (2021: R116 843 934) in the financial statements was necessary. Additionally, there is a consequential impact on payables from exchange transactions, and the deficit from the period.

Accumulated surplus/ (Deficit)

8. The municipality made a restatement to rectify a prior year error on the provision for landfill site as described in note 38 to the financial statements, however did not properly account for the restatement of the corresponding figure for accumulated surplus. Consequently, the effects of prior period error of R 32 642 164 as stated in the statement of changes in net assets is misstated by R 24 142 362 and accumulated surplus of R 98 697 389 as stated in the statement of changes in net assets is misstated by R 24 142 362.

Context for the opinion

9. 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.

10. 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.

11. 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

12. I draw attention to note 54 to the financial statements, which indicates that the municipality is experiencing liquidity challenges due to low collection of amounts owed to the municipality and is in an unfavourable net current liability position. As stated in note 54, these events or conditions, along with the other matters as set forth in note 54, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern. My opinion is not modified in respect of this matter.

Emphasis of matters

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

Material impairments – accounts receivable

14. As disclosed in notes 3.1; 3.2 and 4.1 to the financial statements, material impairments amounting to R18 097 948 (2021: R12 906 184) for exchange transactions and R354 277 161 (2021: R317 590 205) for non-exchange transactions were raised as a result of irrecoverable trade receivables.

Underspending of the conditional grant

15. As disclosed in note 15.1 to the financial statements, the municipality materially underspent the municipal infrastructure grant (MIG) by R5 578 721.

Other matters

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

Unaudited supplementary schedules

17. The supplementary information set out on pages xx to xx does not form part of the annual financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express a conclusion thereon.

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 thereon.

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 the selected development priority 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 priority presented in the municipality's annual performance report for the year ended 30 June 2022:

Development priority	Pages in the annual performance report
KPA 1: Basic service delivery	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 priority is as follows:

KPA 1: Basic service delivery

Kilometers of Tar road maintained (Clustered Potholes)

28. The achievement of 1.6 kilometres of tar road maintained (clustered potholes) was reported against a target of 1.6 kilometres of tar road maintained (clustered potholes) in the annual performance report. However, the supporting evidence provided, materially differed from the reported achievement. This was due to adequate systems and processes not established to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions.

Number of times the public lights maintained

29. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined source of information or that related systems and processes were established to enable consistent measurement and reliable reporting of the actual achievement for the indicator. This was due to insufficient measurement definitions and processes. I was unable to test whether the indicator was well-defined and verifiable by alternative means. As a result, I was unable to audit the reliability of the achievement of 40 number of times the public lights maintained reported against a target of 40 number of times the public lights maintained in the annual performance report.

Other matters

30. I draw attention to the matters below.

Achievement of planned targets

31. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 28 and 29 of this report.

Adjustment of material misstatements

32. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of KPA 1: 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

33. 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.

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

Annual financial statements, performance and annual reports

35. 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 current assets; non-current assets; non-current liabilities, current liabilities, revenue; expenditure and disclosures 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.

Expenditure management

36. Money owed by the municipality was not always paid within 30 days / an agreed period, as required by section 65(2)(e).

37. Reasonable steps were not taken to prevent irregular expenditure amounting to R31 296 247 as disclosed in note 39.3 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 the Preferential Procurement Policy Framework Act5 of 2000 and the SCM regulations.

Procurement and contract management

38. Some of the 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.

39. 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. Similar non-compliance was also reported in the prior year.

40. 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. Similar non-compliance was also reported in the prior year.

Consequence management

41. 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.

42. Some of the 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.

43. 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

44. 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 managed, as required by municipal planning and performance management regulation 7(1).

Other information

45. 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 report. The other information does not include the financial statements, the auditor's report and the selected development priority presented in the annual performance report that have been specifically reported in this auditor's report.

46. 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.

47. 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 priority presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Internal control deficiencies

49. 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.

50. The accounting officer did not adequately review the financial statements and the annual performance report before submitting it for auditing is evident from the material misstatements identified.

51. Senior management did not adequately oversee the operations of the municipality, as the financial statements submitted for audit contained material misstatements, material findings have been identified in the annual performance report and several instances of non-compliance with laws and regulations were noted.

52. The municipality did not have a proper record management system to maintain information that supported the financial statements and performance report and management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

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 priority 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 Musina 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.