



Audit Report

Collins Chabane Local Municipality 30 June 2021



Report of the auditor-general to Limpopo Provincial Legislature and the council of Collins Chabane Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Collins Chabane 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, and cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Collins Chabane Local Municipality as at 30 June 2021, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Recognised Accounting Practice (Standards of GRAP), the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and Division of Revenue Act, 2020 (Act No 4 of 2020) (DoRA).

Basis for opinion

3. 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.
4. 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

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

Litigations and claims

7. With reference to note 39 to the financial statements, the municipality is the defendant in a law suit. The municipality is opposing the claim, as it believes that the claim can be successfully defended. The ultimate outcome of this matter could not be determined and no provision for any liability that may result was made in the financial statements

Restatement of corresponding figures

8. As disclosed in note 41 to the financial statements, the corresponding figures for 30 June 2020 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2021.

Material losses/impairment

9. As disclosed in note 7 to the financial statements, material impairments amounting to R122 410 519 was made to other financial assets as a result of irrecoverable loans and investments.
10. As disclosed in note 10, 11, and 12 to the financial statements, material impairments amounting to R7 375 273, R100 225 735 and R42 527 275 were made to trade and other receivables as a result of irrecoverable trade and other receivables.
11. As disclosed in note 13 to the financial statements, material impairments amounting to R5 075 730 was made to VAT receivables as a result of a dispute between the municipality and South African Revenue Services.

Other matters

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

Unaudited disclosure notes

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

Unaudited supplementary schedules

14. 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 thereon following emphasis of matter paragraphs will be included in our auditor's report to draw the users' attention to matters presented or disclosed in the financial statements:

Responsibilities of the accounting officer for the financial statements

15. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and Division of Revenue Act, 2018 (Act No 1 of 2018) (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.

16. 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

17. 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.
18. 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

19. 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.
20. 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.
21. 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 2021:

Development priority	Pages in the annual performance report
KPA 3 – Basic service delivery and infrastructure development	12 – 31

22. 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.
23. I did not identify any material findings on the usefulness and reliability of the reported performance information for this development priority:
- KPA 3 – Basic service delivery and infrastructure development

Other matters

24. I draw attention to the matters below.

Achievement of planned targets

25. Refer to the annual performance report on pages 6 to 61 for information on the achievement of planned targets for the year and management’s explanations provided for the under achievement of targets.

Adjustment of material misstatements

26. I identified material misstatement in the annual performance report submitted for auditing. This material misstatement was in the reported performance information of Basic service delivery and infrastructure development. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

27. 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.
28. The material findings on compliance with specific matters in key legislation are as follows:

Financial statements, performance and annual reports

29. 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.
30. Material misstatements of non-current assets, current assets, current 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.

Expenditure management

31. Reasonable steps were not taken to prevent irregular expenditure amounting to R82 341 432 as disclosed in note 48 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by the non-compliance with SCM regulations.
32. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R45 453 428, as disclosed in note 46 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by the municipality incurring expenditure that is in excess of the approved budget.

Asset management

33. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
34. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

Consequence management

35. 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.
36. 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.
37. Fruitless and wasteful 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.

Procurement and contract management

38. Some of the invitation to tender for procurement of commodities designated for local content and production, did not stipulated the minimum threshold for local production and content as required by the 2017 Preferential Procurement Regulation 8(2).
39. Some of the commodities designated for local content and production, were procured from suppliers who did not meet the prescribed minimum threshold for local production and content, as required by the 2017 Preferential Procurement Regulation 8(5).

40. 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.
41. Some of the contracts and quotations were awarded to bidders based on preference points that were not calculated in accordance with the requirements of section 2(1)(a) of the Preferential Procurement Policy Framework Act and its regulations

Other information

42. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, The other information does not include the financial statements, the auditor's report and those selected development priority presented in the annual performance report that have been specifically reported in this auditor's report.
43. 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.
44. 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.

Internal control deficiencies

45. 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 findings on compliance with legislation included in this report.
46. Management did not always provide the required supervision and review over daily and monthly recording and reconciliation of transactions to ensure that the municipality complies with the applicable financial reporting.
47. Management did not prepare regular accurate and complete financial and performance reports that are supported and evidenced by reliable information.
48. The municipality developed an action plan to address internal and external audit findings however, there is slow implementation of actions towards resolving findings.

Material irregularities

49. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit.

Prohibited investment with a mutual bank

50. The local municipality invested R 120 million on 31 October 2017 made up of a 3 months' fixed deposit with Venda Building Society (VBS) Mutual Bank, and interest of R 2 410 521 accrued on the VBS mutual bank account. VBS Mutual Bank was placed under curatorship on 11 March 2018 and was subsequently liquidated after the North Gauteng High Court issued the final order to liquidate the bank on 13 November 2018. In terms of regulation 6 of the Municipal Investment Regulations, a municipality may only invest deposits with banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990). The local municipality did not comply with the Municipal Investment Regulations as VBS Mutual Bank is not registered in terms of the Banks Act. The non-compliance is likely to result in a financial loss of R122 410 521 for the municipality if the amount invested is not recovered in full from the estate of VBS Mutual Bank.
51. The accounting officer was notified of the material irregularity on 4 November 2021 and invited to make a written submission on the actions taken and that will be taken to address the material irregularity. On 25 November 2021 the accounting officer submitted as written response with the following actions taken:
- On 9 November 2018, the municipality through a council resolution placed both former accounting officer and chief financial officer on precautionary suspension. On 5 April 2019, the chief financial officer resigned and the council of the municipality accepted the resignation.
 - The disciplinary hearing of the accounting officer predisposed to a verdict that the accounting officer was not guilty of all misconduct charges relating to investment in VBS. On 18 February 2021, the accounting officer entered into a settlement agreement with council in terms of which the accounting officer resigned from the employ of the municipality.
52. I will follow up on the material irregularity during my next audit.

Auditor-General

Polokwane

03 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 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 Collins Chabane 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.