

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Collins Chabane Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2022, 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, the financial statements present fairly, in all material respects, the financial position of the Collins Chabane Municipality as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 9 of 2021 (DoRA).

Basis for 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 matter below. My opinion is not modified in respect of this matters.

Material impairments

7. As disclosed in note 31 to the financial statements, material impairment of R25 440 478 was incurred as a result of irrecoverable receivables

Restatement of corresponding figures

8. As disclosed in note 42 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of an error in the financial statements of the municipality at, and for the year ended 30 June 2022.

Other matter

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

Unaudited disclosure notes

10. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement in note 50 to the financial statements 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

11. 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.
12. 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

13. 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.
14. 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

15. 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 key performance area presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
16. 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.
17. 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 2022:

Key performance area (KPA)	Pages in the annual performance report
Basic service delivery and infrastructure development	x – x

18. 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.
19. I did not identify any material findings on the usefulness and reliability of the reported performance information for this key performance area of basic service delivery and infrastructure development.

Other matters

20. I draw attention to the matters below.

Achievement of planned targets

21. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year.

Adjustment of material misstatements

22. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of key performance area 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

23. 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.
24. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

25. The financial statements submitted for auditing were not fully prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.

Material misstatements of current assets and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Strategic planning and performance management

26. The performance management system and related controls were not maintained as performance monitoring, review and reporting processes was not conducted and managed, as required by municipal planning and performance management regulation 7(1).

Expenditure management

27. Reasonable steps were not taken to prevent irregular expenditure amounting to R14 910 807 as disclosed in note 49 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 of supply chain management (SCM) regulations.
28. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R507 510, as disclosed in note 48 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest raised on late payment to a supplier.
29. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R21 098 249, as disclosed in note 47 to the annual financial statements, in contravention of

section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by exceeding its budget by non-cash items.

Procurement and contract management

- 30. 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.
- 31. Awards were made to providers who were in the service of other state institutions, in contravention of 112(1)(j) of MFMA and SCM Regulation 44.

Other information

- 32. 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 those selected key performance area presented in the annual performance report that have been specifically reported in this auditor's report
- 33. 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.
- 34. 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.
- 35. 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

- 36. 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.
- 37. 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.

38. Management did not prepare regular accurate and complete financial and performance reports that are supported and evidenced by reliable information.
39. 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

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

Status of previously reported material irregularities

Prohibited investment in a mutual bank

41. The local municipality invested R120 million on 31 October 2017 made up of a 3 months' fixed deposit with Venda Building Society (VBS) Mutual Bank, and interest of R2 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.
42. 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.
43. 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 matter. The following actions have been taken to address the material irregularity:
- On 9 November 2018 the Municipality through a council resolution placed both former Municipal Manager and Chief Financial Officer precautionary suspension. On 5 April 2019 the Chief Financial Officer raised and Council of the Municipality accepted the resignation concerned.
 - The Disciplinary Hearing of the Municipal Manager predisposed to a verdict that she was not guilty of all misconduct charges against her. The second disciplinary hearing of the Municipal Manager relating to another matter culminated into Settlement Agreement dated 18 February 2021 in terms of which the she (the Municipal Manager) resigned from the employ of the Municipality
 - The municipality appointed attorneys on 1 August 2019 to assist the municipality with lodging a claim against the Liquidator for monies invested in VBS

- The investment in VBS Mutual Bank has since become a subject matter of investigation by the South African Police Service Officers from the Directorate for Priority Crime Investigation (the Hawks). Furthermore, the liquidation process of VBS Mutual Bank is ongoing.
44. The municipality received R8 568 736.44 from VBS curators on the 16th of February 2022. No further recoveries have been received since.
45. I will follow up on the material irregularity during my next audit.

Other reports

46. I draw attention to the following engagement conducted by an external party 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.
47. The South African Police Service's Serious Corruption Investigation Unit is investigating allegations of fraud and corruption at the municipality. The investigation was on-going at the date of the audit report.

Auditor - General

Polokwane

30 November 2022



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 key performance area 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 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.