

Report of the auditor-general to Limpopo Provincial Legislature and 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 xx to xx, which comprise the statement of financial position as at 30 June 2023, 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 Local Municipality as at 30 June 2023 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 5 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 responsibilities of the auditor-general 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.

Restatement of corresponding figures

7. As disclosed in note 42 to the financial statements, the corresponding figures for 30 June 2022 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2023.

Material impairment of debtors

8. As disclosed in note 31 to the financial statements, material losses of R31 194 066 were incurred as a result of impairment of irrecoverable trade debtors.

Material uncertainties

9. With reference to note 40 to the financial statements, the municipality is the defendant in various lawsuits. The municipality is opposing these claims. The ultimate outcome of the matters could not be determined and no provision for any liability that may result was made in the financial statements.

Other matters

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

Unaudited supplementary schedules

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

Unaudited disclosure notes

12. In terms of section 125(2) (e) of the MFMA, the particulars of non-compliance with the MFMA should be disclosed 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

13. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of GRAP, 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.
14. 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.

Responsibilities of the auditor-general for the audit of the financial statements

15. 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.

16. 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

17. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected key performance areas presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

18. I selected the following key performance areas presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected key performance areas that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

Key performance area	Page numbers	Purpose
Basic service delivery and infrastructure development	[XX]	Promote community wellbeing and environmental welfare
Spatial rationale	[XX]	Integrated human settlements

19. I evaluated the reported performance information for the selected key performance areas against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the municipality's planning and delivery on its mandate and objectives.

20. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives.
- the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements.
- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated.
- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents.

- the reported performance information is presented in the annual performance report in the prescribed manner.
- there is adequate supporting evidence for the achievements reported and for the measures taken to improve performance.

21. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.

22. I did not identify any material findings on the reported performance information for the selected key performance areas:

- Basic service delivery and infrastructure development
- Spatial rationale

Other matter

23. I draw attention to the matters below.

Achievement of planned targets

24. The annual performance report includes information on reported achievements against planned targets and provides explanations measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.

Material misstatements

25. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for basic service delivery and infrastructure development. Management subsequently corrected all the misstatements and I did not include any material findings in this report

Report on compliance with legislation
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26. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.

27. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.

28. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the municipality, clear to allow consistent measurement and evaluation, while also sufficiently

detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.

29. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements, performance and annual reports

30. 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 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.

Expenditure management

31. Reasonable steps were not taken to prevent irregular expenditure amounting to R5 706 484 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 with SCM processes.
32. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R357 735, 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 charged to the municipality
33. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R85 664 874, 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 the budget on depreciation and amortisation, impairment and general expenses.

Consequence management

34. Losses resulting from irregular expenditure were certified by council as irrecoverable without having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(b) of the MFMA and municipal budget and reporting regulations 75(2).
35. Fruitless and wasteful expenditure were certified by council as irrecoverable without having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(b) of the MFMA and municipal budget and reporting regulations 75(2).

Strategic planning and performance management

36. 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).

Procurement and contract management

37. Awards were made to providers who were in the service of other state institutions or whose directors/ principal shareholders were in the service of other state institutions, in contravention of MFMA 112(1)(j) and supply chain management (SCM) regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).

Other information in the annual report

38. The accounting officer is responsible for the other information included in the annual report, which includes the audit committee's report. The other information referred to does not include the financial statements, the auditor's report and those selected key performance areas presented in the annual performance report that have been specifically reported on in this auditor's report.
39. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
40. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected priorities presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
41. 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

42. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
43. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
44. There is lack of timeous capturing of information for financial reporting and also insufficient reconciliations of transactions throughout the course of the year.

45. Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information as evidenced by the number of material findings identified during the year.
46. Management did not review and monitor compliance with applicable legislation as evidenced by the non-compliance findings identified during the audit.

Material irregularities

47. 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 material irregularities as previously reported in the auditor's report.

Status of previously reported material irregularities

Prohibited investment with a mutual bank

48. The local municipality invested R120 million on 31 October 2017 made up of a three months' fixed deposit with Venda Building Society (VBS), and interest of R 2 410 521 accrued on the VBS account. VBS 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 94 of 1990. The local municipality did not comply with the Municipal Investment Regulations as VBS is not registered in terms of the Banks Act.
49. 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.
50. 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 resigned and council accepted the resignation.
 - 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 municipal manager resigned from the employ of the municipality.
 - The municipality appointed attorneys on 1 August 2019 to assist in lodging a claim against the Liquidator for monies invested in VBS

- The investment in VBS Mutual Bank has since become a subject of investigation by the Directorate for Priority Crime Investigation (Hawks). Furthermore, the liquidation process of VBS Mutual Bank is ongoing.

51. The municipality received R8 568 736 from the VBS curators on 16 February 2022. No further recoveries have been made to date.
52. The Hawks indicated during April 2023 that it would consider referring amounts that are not recovered through the liquidation process to the Asset Forfeiture Unit, for further recovery.
53. I received a written submission on the actions taken to address the MI on 25 November 2021. I considered the representations made and the substantiating documents provided and have concluded that appropriate actions have been taken to address the material irregularity. Therefore, I will not pursue this matter any further.

Other reports

Other reports

54. I draw attention to the following engagements conducted by various parties. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
55. The Directorate for Priority Crime Investigation is investigating allegations of an irregular award of a tender that was awarded in 2017-18 for the procurement of the new office blocks for the municipality. The investigation was in progress at the date of the auditor's report.

Auditor-General

Polokwane

30 November 2023



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

- The auditor-general's responsibility for the audit
- The selected legislative requirements for compliance testing

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

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 areas and on the municipality's compliance with selected requirements in key legislation.

Financial statements

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
- conclude on the appropriateness of the 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

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.

I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and 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.

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	Section 1 - Paragraph (a), (b) & (d) of the definition: irregular expenditure, Section 1 - Definition: service delivery and budget implementation plan, Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1), Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), Sections 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), Sections 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, Sections 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations 71(1), 71(2), 72
MFMA: Municipal Investment Regulations, 2005	Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations 5(4), 6(8)(a), 6(8)(b), 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2017	Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a), Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b), Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c), Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43, Regulations 44, 46(2)(e), 46(2)(f)
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 29(3)(b), 34(a), 34(b), Sections 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 56(a), 57(2)(a), Sections 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 93J(1), 96(b)
MSA: Municipal Planning and performance Management Regulations, 2001	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(6)(a), 7(1), 8, 9(1)(a), 10(a), Regulations 12(1), 15(1)(a)(i), 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006	Regulations 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations 17(2), 36(1)(a)

Legislation	Sections or regulations
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Section 11(6)(b), 12(5), 16(1); 16(3)
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations	Regulations 17, 25(7A)
Municipal Property Rates Act 6 of 2004	Section 3(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), Regulations 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5) 9(1), 10(1), 10(2), Regulations 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)