Report of the auditor-general to the Limpopo Provincial Legislature and the council on Thabazimbi Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Thabazimbi Local Municipality set out on pages xx to xx, 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 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 possible effects of the matter described in the basis for qualified opinion section of this report, the financial statements present fairly, in all material respects, the financial position of the Thabazimbi 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 the 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

Property plant and equipment

3. The municipality did not review the useful lives of road infrastructure at each reporting date in accordance with GRAP 17, *Property, plant and equipment.* As a result, some road infrastructure assets included in the carrying amount of R366 639 709 in note 3 to the fianancial statements had a zero net carrying amount while still being in use. I was unable to determine the impact on the net carrying amount of road infrastructure assets as it was impracticable to do so.

4. The municipality did not assess at each reporting date the indication that the infrastructure assets might be impaired in accordance with GRAP 21, *Impairment of non-cash generating assets.* As a result, the recoverable service amount of the electrical, sanitation and water infrastructure was not estimated. I was unable to determine the impact on the net carrying amount of infrastructure assets as it was impracticable to do so.

5. I was unable to obtain sufficient appropriate audit evidence that work in progress was properly accounted for, due to the status of the accounting records. I was unable to confirm the work in progress by alternative means. There was an impact on the prior period errors and reclassifications. Consequently, I was unable to determine whether any adjustment was necessary to work in progress stated at R31 837 013 in note 3 to the financial statements.

6. The municipality did not classify road infrastructure in accordance with GRAP 17, *Property, plant and equipment.* The municipality included some road infrastructure assets under water

infrastructure. Consequently, water infrastructure is overstated by R14 358 133 and road infrastructure is understated by R14 358 133 in note 3 to the financial statements.

7. The municipality did not recognise movable assets in accordance with GRAP 17, *Property, plant and equipment*. Movable assets were not recorded as the municipality did not have adequate systems in place to account for all movable assets. There was an impact on the surplus for the period and on the accumulated surplus. I was unable to determine the impact on the net carrying amount in property, plant and equipment as it was impracticable to do so.

Trade and other payables

8. I was unable to obtain sufficient appropriate audit evidence that trade and other payables was properly accounted for, due to the status of the accounting records. I was unable to confirm the trade and other payables by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to trade and other payables stated at R 457 556 479 (2021: R 448 939 786) in note 14 to the financial statements.

Contracted services

9. The municipality did not recognise contracted services in accordance with GRAP 1, *Presentation of financial statements*. As the municipality recorded items of property, plant and equipment as contracted services. Additionally, the municipality recorded items of contracted services relating to prior period in the current period. Consequently, contracted services is overstated by R19 632 893, property, plant and equipment is understated by R9 994 813, Inventory is understated by R 2 497 057 and there was an impact on accumulated surplus.

VAT receivable

10. I was unable to obtain sufficient appropriate audit evidence for VAT receivable due to a lack of proper record keeping and reconciliation of control accounts by the municipality. I was unable to confirm VAT receivable by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to VAT receivables stated at R 66 129 585 in the financial statements.

Cash flow statement

11. The municipality did not correctly prepare and disclose the net cash flows from operating activities as required Standards of GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flows from operating activities. I was not able to determine the full extent of the errors in the net cash flows from operating activities as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from operating activities as stated at 43 240 717 in the financial statements were necessary.

Prior period errors and reclassifications

12. The municipality did not disclose previous period errors in note to the financial statements, as required by GRAP 3, *Accounting policies, estimates and errors*. The nature and the amount of the correction for each financial statement item affected, and the amount of the correction at the beginning of the earliest previous period were not disclosed. In addition, I was unable to obtain sufficient appropriate audit evidence for the prior period errors disclosed, as the

supporting information was not provided. I was unable to confirm these disclosures by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the previous period errors disclosed in the financial statements.

Cash and cash equivalents

13. I was unable to obtain sufficient appropriate audit evidence for cash and cash equivalents due to a lack of proper record keeping and reconciliation of control accounts by the municipality. I was unable to confirm these trade payables by alternative means. Consequently, I was unable to determine whether any further cash and cash equivalents stated at R10 907 197 in note 6 to the financial statements were necessary.

Material losses

14. I was unable to obtain sufficient appropriate audit evidence for material losses due to a lack of proper record keeping and reconciliation of control accounts by the municipality. I was unable to confirm material losses by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to material losses stated at stated at R6 207 068 and R7 029 706 for electricity and water respectively in note 38 to the financial statements.

Context for the opinion

15. 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.

16. 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.

17. 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

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

19. I draw attention to note 44 to the financial statements, which indicates that the municipality has adverse key financial ratios and operation matters. As stated in note 44, these events or conditions, along with the other matters as set forth in note 44, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matter

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

Material impairment of trade and other receivables from exchange and non-exchange transactions

21. As disclosed in note 27 to the financial statements, material losses of R69 153 775 was incurred as a result of debt impairment provision of receivables from exchange and non-exchange transactions.

Other matter

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

Unaudited disclosure notes

23. 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

24. 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 this/ these schedules and, accordingly, I do not express an opinion on them.

Responsibilities of the accounting officer for the financial statements

25. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the GRAP standard 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.

26. 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

27. 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.

28. 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 annual performance report

29. 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 material findings on the usefulness and reliability of the reported performance information against predetermined objectives presented in the annual performance report. . The accounting officer is responsible for the preparation of the annual performance report.

30. I performed procedures to evaluate the usefulness and reliability of the reported performance information on selected performance indicators in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice.

31. I performed the procedures in accordance with the AGSA audit methodology. This engagement is not an assurance engagement. Accordingly, I do not express an opinion or an assurance conclusion.

32. My procedures address the usefulness and reliability of the reported performance information on the selected performance indicators, 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.

33. I performed procedures to determine whether the reported performance information was properly presented and whether the performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the selected performance 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.

34. I selected the following material performance indicators contained in Key Performance Area (KPA) 2 Basic services and infrastructure development presented in the municipality's annual performance report for the year ended 30 June 2022 set out on pages 25 to 37. I selected the indicators that measure the municipality's performance on its primary mandated functions and which are of significant national, community or public interest.

Key Performance Area
Key Performance Area (KPA) 2 Basic services and infrastructure development

35. The material findings on the usefulness and reliability of the performance information of the selected material performance indicators are as follows:

Performance indicator:	Target	Reported achievement:
Number of km paved roads constructed by set date	4,6km of paved roads constructed in Northam Extension 5 by 31 March	2,3km were constructed by 30 June 2022
Number of km of bulk water pipe line constructed by set date	Construct 4.9km of bulk water pipe line by 30 June 2022	0.245 km of bulk water pipeline constructed by 30 June2022
Number of Km pipeline and Number of stands water Reticulation in Northam phase 2 ward 7,8 upgraded by set date	Upgrade 8.35Km pipeline and 500 stands water Reticulation in Northam phase 2 ward 7,8 by 30 June 2022	4.175Km of pipeline and 500 stands water reticulation in Northam phase 2 upgraded by 30 June 2022
Number of Km pipeline and Number of stands water Reticulation in Regorogile phase 2 ward 9,10 and 12 upgraded by set date	Upgrade 6.5Km pipeline and 400 of stands water Reticulation in Regorogile phase 2 ward 9,10 and 12 by 30 June 2022	0.975km of pipeline and 400 stands water reticula in Regorogile phase 2 ward 9,10,12 upgraded by 30 June 2022
Number of VIP toilets constructed in Rooiberg, Skierlik Meriting by set date	364 Number of VIP toilets constructed (Rooiberg - 100, Skierlik-100, and Meriting -164) (Overall progress - 100%) by 30 June 2022	66 VIP toilets constructed at Rooiberg , Meriting and Skierlik by 30 June 2022
Number and percentage of 20MVA substation Constructed by set date	Construct 50% of 120MVA substation ion by 30 June 2022	8 % of 1 20MVA substation constructed by 30 June 2022.
Number of graves dug by set date	60 graves dug by 30 June 2022	60 raves dug by 30 June 2022

36. I was unable to obtain sufficient appropriate audit evidence for the reported achievements on the indicators relating to this key performance area. This was due to the lack of accurate and complete records. I was unable to confirm the reported achievements by alternative means.

Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report for the indicators.

Performance Indicator:	Target	Reported achievement:
Number of Sport and recreation facility upgraded at Raphuthi (Ward 4) by set date	Upgrade 1 Sport and recreation facility at Raphuthi (Ward 4) by 31 December 2021	Upgraded 0 Sport and recreation on facility at Raphuthi (Ward 4) by 31 December 2021
Number of Km pipeline and Number of stands water Reticulation in Northam phase 2 ward 7,8 upgraded by set date	Upgrade 8.35Km pipeline and 500 stands water Reticulation in Northam phase 2 ward 7,8 by 30 June 2022	4.175Km of pipeline and 500 stands water reticulation in Northam phase 2 upgraded by 30 June 2022
Number of Km pipeline and Number of stands water Reticulation in Regorogile phase 2 ward 9,10 and 12 upgraded by set date	Upgrade 6.5Km pipeline and 400 of stands water Reticulation in Regorogile phase 2 ward 9,10 and 12 by 30 June 2022	0.975km of pipeline and 400 stands water reticula in Regorogile phase 2 ward 9,10,12 upgraded by 30 June 2022
Number of VIP toilets constructed in Rooiberg, Skierlik Meriting by set date	364 Number of VIP toilets constructed (Rooiberg - 100, Skierlik-100, and Meriting -164) (Overall progress - 100%) by 30 June 2022	66 VIP toilets constructed at Rooiberg , Meriting and Skierlik by 30 June 2022
Number of graves dug by set date	60 graves dug by 30 June 2022	60 graves dug by 30 June 2022

37. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined nature and required level of performance and/or method of calculation and/or deadline for delivery to be used when measuring the actual achievement for targets. This was due to insufficient measurement definitions and processes. I was unable to test whether the targets for the indicators was clearly defined by alternative means.

38. The planned indicator and target were to upgrade 6.5Km pipeline and 400 of stands water reticulation in Regorogile phase 2 ward 9,10 and 12 by 30 June 2022, but the reported achievement referred to was 0.975km of pipeline and 400 stands water reticula in Regorogile phase 2 ward 9,10,12 upgraded by 30 June 2022.

Other matters

39. I draw attention to the matters below.

Achievement of planned targets

40. 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 xx to xx of this report.

Report on compliance with legislation

41. 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 applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.

42. I performed procedures to test compliance with selected requirements in key legislation in accordance with the AGSA audit methodology. This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.

43. 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 adequately available to report in an understandable manner. The selection is done through an established AGSA process. The selected legislative requirements are included in the annexure to this auditor's report.

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

Annual financial statements and annual report

45. 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.

46. Material misstatements identified by the auditors in the submitted financial statements were not corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a qualified audit opinion. Material misstatements of non- 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, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

47. The 2020-21 annual report was not made public after being tabled in council, as required by section 127(5)(a)(i) of the MFMA.

48. The local community was not invited to submit representations in connection with the 2020-21 annual report, as required by section 127(5)(a)(ii) of the MFMA.

49. The oversight report adopted by the council on the 2020/21 annual report was not made public, as required by section 129(3) of the MFMA.

Strategic planning and performance management

50. The strategic development budget implementation plan (SDBIP) for the year under review did not include monthly revenue projections by source of collection as required by section 1 of the MFMA.

Grant management

51. The Municipal Infrastructure Grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of the Division of Revenue Act (Act 9 of 2021).

Expenditure management

52. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

53. Reasonable steps were not taken to prevent irregular expenditure amounting to R8 273 270 as disclosed in note 36 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 regulation.

54. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R10 415 786, as disclosed in note 35 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 for late payment of invoices.

55. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The majority of the disclosed unauthorised expenditure was caused by non-cash items not adequately budgeted for.

Consequence management

56. 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.

57. 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.

58. 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

59. Sufficient appropriate audit evidence could not be obtained that written quotations were accepted from prospective providers who were on the list of accredited providers and met the listing requirements as prescribed by the supply chain management (SCM) policy, in contravention of SCM regulations 16(b) and 17(1)(b).

60. Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM Regulation 13(c).

61. Sufficient appropriate audit evidence could not be obtained that quotations were only accepted from bidders whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.

62. Some of the contracts were not awarded in an economical manner and the prices of the goods or services were not reasonable as required by section 62(1)(a) of the MFMA.

63. 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).

64. Sufficient appropriate audit evidence could not be obtained that contracts were extended or modified with the approval of a properly delegated official as required by SCM regulation 5.

65. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored on a monthly basis as required by section 116(2) of the MFMA.

66. Sufficient appropriate audit evidence could not be obtained that contract performance and monitoring measures were in place to ensure effective contract management as required by section 116(2)(c)(ii) of the MFMA

Other information

67. 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 material indicators in the scoped-in programme presented in the annual performance report that have been specifically reported in this auditor's report.

68. My opinion on the financial statements and material 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.

69. 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 material indicators in the scoped-in programme presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

70. 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

71. 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.

72. The accounting officer did not implement effective human resource management to ensure that sufficiently skilled resources in the key financial reporting areas are in place and individuals are held accountable for non-performance.

73. The accounting officer did not adequately review established policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities.

74. The municipality did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.

75. The accounting officer did not adequately review the financial statements and the annual performance report prior to submission for audit, misstatements in the financial statements and annual performance report were not detected by the municipality's own system of internal controls.

76. The municipality did not have sufficient monitoring controls to ensure the proper implementation of the overall processes of compliance with legislation. Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored.

Auditor-General

Polokwane

01 December 2022

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 compliance requirements for compliance testing

Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs and the AGSA audit methodology, 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 performance indicators and on the municipality's compliance with selected requirements in key legislation.

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 Thabazimbi 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.

   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.