

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

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Modimolle-Mookgophong Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2022, 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 the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects and possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Modimolle-Mookgophong Local Municipality as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 Act 56 of 2003 (MFMA) and the Division of Revenue Act of South Africa, 2020 (Act No. 9 of 2021) (DoRA).

Basis for qualified opinion

Property, plant and equipment

3. The municipality did not have adequate systems in place to maintain records of Land in accordance with GRAP 17, *Property, plant and equipment*. I identified items of Land belonging to the municipality that were not included in the underlying accounting records and financial statements. I was not able to determine the full extent of the understatement of Land stated at R459 287 721 (2021: R458 087 721) in the financial statements as it was impracticable to do so.
4. The municipality's underlying accounting records did not facilitate easy identification and location of items of property, plant and equipment. As a result, items of land and infrastructure assets could not be physically verified. I could not confirm land and infrastructure assets by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to land and infrastructure assets stated at R459 287 721 (2021: R458 087 721) and R579 371 018 (2021: R611 595 330) respectively in the financial statements.
5. Work-in-progress amounting to R118 473 866 included in note 12 to the financial statements was incorrectly classified as work-in-progress, while it was available for use in terms of GRAP 17, *Property, plant and equipment*. This resulted in the overstatement of

work-in-progress and understatement of completed assets by R118 473 866. I was unable to quantify the misstatement of the depreciation amount as the municipality did not determine useful lives for these completed assets.

6. The municipality did not have adequate systems to assess and evaluate the condition of property, plant and equipment items for impairment in accordance with GRAP 26, *Impairment of cash generating assets*. Consequently, property, plant and equipment was overstated by R43 740 673 and impairment understated by the same amount. There was a resultant impact on the surplus for the period and on the accumulated surplus.
7. Other property, plant and equipment was materially misstated by R9 103 128 due to the cumulative effect of individually immaterial uncorrected misstatements in the following items:
 - Other property, plant and equipment stated at R25 772 359 was understated by R6 971 494
 - Additions to other property, plant and equipment stated at R3 788 446 was understated by R2 131 634

Cash and cash equivalents

8. I was unable to obtain sufficient appropriate audit evidence that cash and cash equivalents for the current year had been properly accounted for, due to the status of accounting records. I was unable to confirm cash and cash equivalents by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to cash and cash equivalents stated at R24 198 082 (2021: R12 398 677) in the financial statements. Since the cash and cash equivalents balance is included in the determination of net cash flows from operating activities reported in the statement of cash flows, I was unable to determine whether any adjustments were necessary in the cash flows from operating activities stated at R60 830 854 (2021: R77 121 087) in the financial statements.

Payables from exchange transactions

9. During 2021, I was unable to obtain sufficient appropriate audit evidence for unallocated deposits due to the status of the municipality's accounting records. I was unable to confirm the unallocated deposits by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the corresponding figure of unallocated deposits, stated at R96 762 341. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. My opinion on the current year financial statements is also modified because of the possible effect of this matter on the comparability of the unallocated deposits for the current period.
10. During 2021, the municipality did not recognise all outstanding tax control transactions amounting to R23 688 023 that meet the definition of a liability in accordance with GRAP 1, *Presentation of financial statements*. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. My opinion on the current year financial statements was also modified because of the effect of this matter on the comparability of the Tax control for the current period.

Revenue from exchange transactions

11. The municipality did not recognise all revenue from service charges in accordance with GRAP 9, *Revenue from exchange transactions*, as the municipality did not bill for all services rendered to consumers. I identified differences between meter reading reports and billing reports. Consequently, service charges revenue was understated by R17 559 089 (2021: R15 024 467) and receivables from exchange transactions was understated by the same amounts. In addition, the municipality did not have adequate systems to maintain records for service charges as they incorrectly classified non-indingents consumers as indingents. I was unable to determine to full extent of the understatement in service charges, as it was impracticable to do so. There was also a resultant impact on surplus for the period.

Revenue from non-exchange transactions

12. Revenue from non-exchange transactions was materially misstated by R12 407 659 due to the cumulative effect of individually immaterial uncorrected misstatements in the following item:

- Property rates stated at R117 631 989 was overstated by R7 322 510.

In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm revenue from non-exchange by alternative means:

- Fines, penalties and forfeits of R5 085 149 as included in the disclosed balance of R173 818 176.

Consequently, I was unable to determine whether any further adjustment was necessary to revenue from non-exchange.

13. During 2021, the municipality applied the incorrect property values in the calculation of property rates, as internal controls was not established to confirm rates were levied against correct property valuations. Consequently, property rates and receivables from non-exchange transactions were overstated by R9 285 692. My audit opinion on the financial statements for the period ended 30 June 2021 was modified accordingly. My opinion on the current year financial statements was also modified because of the effect of this matter on the comparability of the property rates and receivables from non-exchange transactions for the current period.

Expenditure

14. I was unable to obtain sufficient appropriate audit evidence that general expenses was properly accounted for, due to the non-submission of information and documentation. I was unable to confirm the general expenses by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to general expenses stated at R64 307 685 (2021: R59 870 854) in note 42 to the financial statements.

15. I was unable to obtain sufficient appropriate audit evidence for bulk purchases, due to the non-submission of information or documentation to ensure electricity the quantity units received is accurate and valid . I was unable to confirm this purchases by alternative

means. Consequently, I was unable to determine whether any adjustment was necessary to bulk purchases stated at R222 305 636 (2021: R202 465 740) in note 40 to the financial statements.

16. Total expenditure was materially misstated by R9 116 983 due to the cumulative effect of individually immaterial uncorrected misstatements in the following items:

- Finance cost stated at R19 251 801 was overstated by R5 599 000
- Depreciation and amortisation stated at R38 527 490 was overstated by R3 517 983

Irregular expenditure

17. The municipality did not include all irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. This was due to expenditure transactions made in contravention of the supply chain management requirements, which resulted in irregular expenditure being understated by R11 611 997 (2021: R10 520 997).

Contingent liabilities

18. The municipality did not record all contingencies, as internal controls were not established to confirm that all contingencies were disclosed. Consequently, contingent liabilities were understated by R156 291 360.

Commitments

19. The municipality did not record all commitments, as internal controls was not established to confirm that all commitments were disclosed. Consequently, commitments were understated by R45 045 977.

Cash flow

20. 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 R60 830 854 in the financial statements were necessary.

Context for the opinion

21. 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.

22. 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.

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

Emphasis of matters

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

Material uncertainty relating to going concern/financial sustainability

25. I draw attention to the statement of financial position to the financial statements, which indicates that as 30 June 2022 the municipality's current liabilities exceeded its current assets by R609 877 149. This event or condition, along with other matters as set forth in Note 50, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Material losses/Impairment

26. As disclosed in note 5, 6, and 7 to the financial statements, material impairments amounting to R114 558 758, R117 426 852 and R371 886 464 were made to other statutory receivables, receivables from exchange transactions as well as receivables from non-exchange transactions respectively.
27. As disclosed in note 56 to the financial statements, material electricity losses of R42 763 428 (2021: R44 333 754) was incurred, which represents 16% (2021: 18%) of total electricity purchased. The losses are due to theft, distribution and illegal tampering of electricity meters and technical losses due to insufficient maintenance.
28. As disclosed in note 56 to the financial statements, material water losses of R32 840 566 (2021: R10 421 632) was incurred, which represents 40% (2021: 11%) of total water purchased. The losses are due to theft, lack of maintenance and illegal tampering of water meters.

Other matter

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

Unaudited disclosure note

30. 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.

Responsibilities of the accounting officer for the financial statements

31. 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.
32. 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

33. 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.
34. 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.
35. 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

36. 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 areas presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

37. 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.

38. 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	Pages in the annual performance report
Basic service delivery	x – x

39. I performed procedures to determine whether the reported performance information 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.

Basic service delivery

40. I did not identify any material findings on the usefulness and reliability of the reported performance information for this key performance area:

- Basic service delivery

Other matters

41. I draw attention to the matters below.

Achievement of planned targets

42. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year and management’s explanations provided for the under achievement of targets. This information should be considered in the context of the unqualified opinion expressed on the usefulness and reliability of the reported performance information in paragraph(s) [x to x] of this report.

Adjustment of material misstatements

43. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of basic service delivery. 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

44. 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.
45. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

46. 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.
47. Material misstatements of non-current assets, current assets, revenue, expenditure, disclosure items and liabilities identified by the auditors in the submitted financial statements were subsequently corrected and/or the supporting records were provided subsequently, but the uncorrected material misstatements and/ or supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

48. Sufficient appropriate audit evidence could not be obtained that all deviations (contracts) were awarded in accordance with the legislative requirements as included in the supporting deviation memorandums could not be provided for the deviations amounting to R4 701 319.
49. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(1)(a) and (c).
50. Some of the goods and services with a transaction value of above R200 000 were procured without inviting competitive bids, as required by SCM Regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
51. Some of the construction contracts were awarded to contractors that did not qualify for the contract in accordance with section 18(1) of the CIDB Act and CIDB regulations 17.

52. Sufficient appropriate evidence could not be obtained that contracts that contracts were extended or modified with the approval of a properly delegated official as required by SCM Regulation 5.
53. Sufficient appropriate evidence could not be obtained that the performance of contractors and providers was monitored on a monthly basis as required by section 116(2) of the MFMA.
54. Sufficient appropriate 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.

Expenditure management

55. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
56. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by the extension of contracts over and beyond the recommended period and the competitive supply chain management procedures not followed.
57. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R127 594 928, as disclosed in note 52 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by non-cash items relating to impairments that was not budgeted for.

Revenue management

58. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.

Consequence management

59. 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.
60. Losses resulting from irregular expenditure were not recovered from the liable person, as required by section 32(2) of the MFMA.
61. Losses resulting from irregular expenditure were certified 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.
62. Fruitless and wasteful expenditure were certified by council certified as irrecoverable without having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(b) of the MFMA.

Other information

63. 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 development priorities presented in the annual performance report that have been specifically reported in this auditor's report.
64. 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.
65. 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 key performance area presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
66. 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

67. 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 performance report and the findings on compliance with legislation included in this report.
68. The accounting officer did not adequately review the financial statements before submitting it for auditing as material misstatements were identified by the auditors in the submitted financial statements. Although the annual performance report was correctly adjusted the initial report contained material misstatements.
69. 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 applicable financial reporting.
70. Action plan was not adequately implemented and monitored.
71. The financial statements were not reconciled to the underlying records to ensure the accuracy, completeness and reliability of the reported financial results.

72. Monthly reconciliations for financial reporting and compliance with laws and regulations were not subjected to proper review to ensure accuracy, completeness and reliability of the reported financial results.
73. Information technology governance framework is still not adequately implemented.

Auditor-General

Polokwane

30 November 2022



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected development priorities 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 Modimolle-Mookgophong 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.