Report of the auditor-general to Limpopo Provincial Legislature and Council on Fetakgomo-Tubatse Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Fetakgomo-Tubatse Local 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 information with actual information for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, except for the 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 Fetakgomo-Tubatse Local Municipality as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with Standards of Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and Division of Revenue Act 9 of 2021 (DoRA).

Basis for qualified opinion

Commitments

3. The municipality did not have an adequate system in place to account for commitments. I identified material differences of R61 610 093 between the commitments amounts and my recalculations. Consequently, I was unable to determine whether any adjustments were necessary to the commitments stated at R550 932 482 (2021: R336 979 011) in note 46 to the financial statements.

Irregular expenditure

4. 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 incurred in contravention of the supply chain management (SCM) requirements, which resulted in irregular expenditure being understated by R25 381 221.

Context for the opinion

5. 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.

6. 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.

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

Emphasis of matters

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

Restatement of comparative figures

9. As disclosed in note 49 and 50 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2022.

Uncertainty relating to the future outcome of litigation

10. We reference to note 47 to the financial statements, the municipality is the defendant in various litigation. The municipality is opposing these claims as it believes there are reasonable grounds to defend each claim. The ultimate outcome of these matters could not be determined and no provision for any liability that may result was made in the financial statements.

Underspending of the conditional grants

11. As disclosed in note 17 to the financial statements, conditional grants were unspent by R33 795 069, significant underspending was noted under Municipal Infrastructure Grant (MIG) by R18 975 122 due to litigations on the projects, Distressed Mining Town Grant by R10 311 389 and Integrated National Electrification Programme by R4 508 558.

Material impairment- trade debtors

12. As disclosed in note 39 to the financial statements, material losses of R23 595 651 was incurred as a result of non-payment by consumers.

Other matters

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

Unaudited supplementary schedules

14. The supplementary schedule set out on pages xx to xx does not form part of the financial statement and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion on it.

Unaudited disclosure notes

15. 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 requirements 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

16. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the standards of Generally Recognised Accounting Principles and the requirements of the Municipal Finance Management Act, 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.

17. 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

18. 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.

19. 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

20. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

21. 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.

22. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the municipality's annual performance report for the year ended 30 June 2022:

Development priority	**Pages in the annual performance report**
KPA 3 – Basic service delivery and infrastructure	x – x

23. I did not identify any material findings on the usefulness and reliability of the reported performance information for this development priority:

- Basic service delivery and Infrastructure

Other matters

24. I draw attention to the matters below.

Achievement of planned targets

25. 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/over achievement of targets.

Adjustment of material misstatements

26. 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 of development priority. Management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information

Report on the audit of compliance with legislation

Introduction and scope

27. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the municipality's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

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

Annual financial statements

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

30. Material misstatements of non-current assets, current assets, liabilities, disclosure items identified by the auditors in the submitted financial statements were subsequently corrected but the uncorrected material misstatements and resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

31. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements reasons for the limitations where the tender documents were not submitted within the agreed upon timelines. As a result of these limitations, the findings reported in the rest of this section may not reflect the true extent of irregularities and SCM weaknesses.

32. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).

33. 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). Similar non-compliance was also reported in the prior year.

34. Awards were made to providers who are 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 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).

Expenditure management

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

36. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as

indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by awarding contracts in contravention with SCM regulation.

37. Withdrawals were made from the municipality's bank accounts without the approval of the accounting officer, the chief financial officer or a properly authorised official, as required by section 11(1) of the MFMA.

38. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R9 751 760, as disclosed in note 55 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The disclosed fruitless and wasteful expenditure was caused by unexplained withdrawals from municipality's bank account, loss of case and interest on late payments.

Consequence management

39. Some of the losses resulting from 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.

Other information

40. 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.

41. 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.

42. 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.

Internal control deficiencies

43. 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.

44. The accounting officer did not adequately review the annual performance report and financial statements prior to submission for audit resulting in material misstatements which were identified during the audit

45. The accounting officer did not adequately review and monitor compliance with applicable procurement legislation and the MFMA. Supply chain management processes were inadequate resulting in material irregular expenditure for the municipality.

46. The accounting officer 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 reporting.

47. The accounting officer did not take all reasonable steps to ensure that the resources of the municipality are used effectively, efficiently and economically.

48. The accounting officer did not take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

49. The accounting officer together with senior management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

50. The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls within the current financial year.

Material irregularities

51. In accordance with the PAA and the material irregularity regulations, I have a responsibility to report on the status of the material irregularities reported in the previous year's auditor's report

Status of previously reported material irregularities

Prohibited Investment with a Mutual Bank

52. The municipality invested a total of R230 million with the Venda Building Society Mutual Bank (VBS). On the Investments made the municipality, interest amounting to R15 146 857 was accrued. The municipality did not comply with the municipal investment regulations as VBS is not registered in terms of the Banks Act 94 of 1990 (Bank Act). The non-compliance is likely to result in a financial loss of R245 146 632 for the municipality if the amount invested is not recovered in full from the estate of VBS.

53. The accounting officer was notified of the material irregularity on 25 November 2021 and invited him to make a written submission on the actions taken and that will be taken to address the material irregularity. The following actions have been taken to address the material irregularity:

- On 15 November 2018, the municipal council resolved to place both the former accounting officer and the chief financial officer on suspension. The chief financial officer resigned on 31 July 2018 and the accounting officer subsequently resigned on 30 September 2019.
- On 13 December 2018, the municipal council approved to initiate disciplinary processes against the municipal manager and the chief financial officer. Council approved the appointment of an independent service provider to commence with internal disciplinary proceedings and prefer charges against the afore-mentioned suspended officials. Council further approved that civil recovery measures be instituted against all who are implicated in the financial misconduct of irregular investments with VBS.
- On 11 April 2019, the municipal council further resolved that the accounting officer instruct the attorney of municipality to lodge and process the claim for the repayment of investments deposits made against the appointed VBS liquidator.
- The municipality received R16 100 000 from VBS curator on 4 February 2022. No further recoveries have been made since.

54. I will follow up on progress made during my next audit.

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 Fetakgomo-Tubatse 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.