Report of the auditor-general to the Northern Cape Provincial Legislature and the council on Phokwane Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Phokwane Local Municipality set out on pages xx to xx, which comprise statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and the 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 possible effects of the matters described in the basis for qualified opinion section of this report, the financial statements present fairly, in all material respects, the financial position of Phokwane Local Municipality as at 30 June 2019 and its financial performance and separate cash flows for the year then ended, in accordance with the Standards of General Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No.56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2017 (Act No.3 of 2017) (DoRA).

Basis for qualified opinion

Property, plant and equipment

3. The municipality did not recognise land in accordance with GRAP 17, *Property, plant and equipment*, as all land owned were not included in the property, plant and equipment register. Consequently, land included in property, plant and equipment was understated by R27 060 259. Additionally, there was an impact on accumulated surplus.

4. The municipality did not review the residual values and useful lives for property, plant and equipment in accordance with GRAP 17, Property, plant and equipment at each reporting date. I was unable to determine the impact on the net carrying amount of property, plant and equipment as it was impracticable to do so.

Investment property

5. The municipality did not recognise all items of investment property in accordance with GRAP 16, *Investment property*, as all properties were not included in the investment property register. Consequently, investment property was understated with R14 163 938. In addition, land that meets the recognition criteria for investment property was incorrectly classified as land under property, plant and equipment. Consequently, investment property was understated and land included in property, plant and equipment was overstated by R2 555 534. Additionally, there was an impact on the accumulated surplus.

Receivables from exchange transaction

6. The municipality did not account for receivables from exchange transactions in accordance with GRAP 104, *Financial Instruments*, due to consumers not being completely billed. In addition the receivables from exchange transactions were not correctly discounted. This resulted in receivables from exchange transactions being understated with R4 226 477, service charges understated by R2 244 920, other income understated with R1 115 298 and interest received understated with R866 259. Additionally, this has an impact on the surplus for the period and accumulated surplus for the period.

7. During 2018, the municipality did not account for receivables from exchange transactions in accordance with GRAP 104, *Financial Instruments*, due to not accounting for interest on receivables from exchange transactions. I was unable to determine the full extent of the understatement of interest received under revenue from exchange transactions and receivables from exchange transactions as it was impractical to do so. My audit opinion on the financial statements for the period ended 30 June 2018 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of interest received under revenue from exchange transactions and receivables from exchange transactions for the current period.

Receivables from non-exchange transaction

8. During 2018, the municipality did not account for receivables from non-exchange transactions in accordance with GRAP 104, *Financial Instruments*, due to not accounting for interest on receivables from non-exchange transactions. I was unable to determine the full extent of the understatement of interest received under revenue from non-exchange transaction and property rates included in receivables from non-exchange transaction as it was impracticable to do so. My audit opinion on the financial statements for the period ended 30 June 2018 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of interest received under revenue from non-exchange transactions and property rates included in receivables from non-exchange transactions for the current period.

Payables from exchange transactions

9. Payables from exchange transaction was materially misstated by R389 212 due to the cumulative effect of individually immaterial uncorrected misstatements in trade payables, staff leave accrual, sundry creditors, payroll control account and payment received in advance.

   - Staff leave accrual stated at R8 545 549 was understated by R516 910.
   - Sundry creditors stated at R1 853 413 was overstated by R281 848.
   - Payroll control account stated at R147 510 was overstated by R112 336
   - Trade payables stated at R228 022 690 was understated by R593 294
   - Payment received in advanced stated at R9 132 317 was understated by R81 356
   - The municipality did not have adequate systems in place to account for payables from exchange transactions in accordance with GRAP 1, Presentation *of financial statements.*

In addition, I was unable to obtain sufficient appropriate evidence and to confirm the trade payables by alternative means

- Trade payable of R228 022 690 as included in the disclosed balance of R255 377 156
- Accrued leave of R8 545 549 as included in the disclosed balance of R255 377 156
- Retentions of R5 522 428 as included in the disclosed balance of R255 377 156
- and Sundry creditors of R1 853 413 as included in the disclosed balance of R255 377 156

Consequently, I was unable to determine whether any adjustments were necessary to trade payables stated at R243 944 080 in note 16 to the financial statements. Since payables from exchange transactions is included in the determination of net cash flows from operating activities reported in the cash flow statements, I was unable to determine whether cash flows from operating activities are accurate and complete.

10. During 2018, I was unable to obtain sufficient appropriate audit evidence for the staff leave accrual and to confirm the staff leave accrual by alternative means due to there not being adequate systems in place to capture, record, process and account for staff leave. Consequently, I was unable to determine whether any adjustment was necessary to staff leave accrual stated at R7 786 133 in note 16 to the financial statements. My audit opinion on the financial statements for the period ended 30 June 2018 was modified accordingly. My opinion in the current year is also modified due to the possible effect on this matter on the comparability of staff leave accrual.

Employee benefit obligations

11. The municipality did not recognise the post-retirement medical aid benefit in accordance with GRAP 25*, Employee benefits*. The municipality included employees that do not meet the requirements per the bargaining council to be included in the post-retirement medical aid benefit in the financial statements. Consequently, post-retirement medical aid benefit as disclosed in note 18 of the financial statements is overstated by R7 577 000, and medical aid in employee related cost by R7 577 000 respectively. Additionally, this has an impact on the surplus for thr period and accumulated surplus for the period.

Provisions

12. I was unable to obtain sufficient appropriate audit evidence for provisions, as provisions for rehabilitation of landfill sites had not been properly accounted for due to the status of the accounting records. I was unable to confirm the provision for rehabilitation of landfill sites by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to provisions stated at R25 090 690 (2018: R23 957 054) in note 20 to the financial statements.

Service charges

13. I was unable to obtain sufficient appropriate audit evidence for revenue from exchange transactions, as the revenue from sale of water had not been properly accounted for, due to the poor status of the accounting records. I was unable to confirm the revenue from sale of water by alternative means. Consequently, I was unable to determine whether any adjustment

was necessary to sale of water stated at R40 466 275 in note 22 in the financial statements. Since revenue from sale of water is included in the determination of net cash flows from operating activities reported in the cash flow statements, I was unable to determine whether cash flows from operating activities are accurate and complete.

14. I was unable to obtain sufficient appropriate audit evidence for revenue from exchange transactions, as the revenue from sale of electricity had not been properly accounted for, due to the poor status of the accounting records. I was unable to confirm the revenue from sale of electricity by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to sale of electricity stated at R76 333 663 (2018: R78 215 040) in note 22 in the financial statements. Since revenue from sale of electricity is included in the determination of net cash flows from operating activities reported in the cash flow statements, I was unable to determine whether cash flows from operating activities are accurate and complete.

15. During 2018, I was unable to obtain sufficient appropriate audit evidence for revenue from exchange transactions, as the revenue from sewerage and sanitation charges had not been properly accounted for, due to the poor status of the accounting records. I was unable to confirm the revenue from sewerage and sanitation charges by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to sewerage and sanitation charges stated at R13 926 314 in note 22 in the financial statements. My audit opinion on the financial statements for the period ended 30 June 2018 was modified accordingly. My opinion in the current year is also modified due to the possible effect on this matter on the comparability of sewerage and sanitation charges.

Other income

16. I was unable to obtain sufficient appropriate audit evidence for other income stated at R2 411 877 (2018: R13 490 726) in note 25 in the financial statements.I was unable to confirm other income by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to other income stated at R2 411 877 (2018: R13 490 726) in note 25 in the financial statements. Since other income is included in the determination of net cash flows from operating activities reported in the cash flow statements, I was unable to determine whether cash flows from operating activities are accurate and complete.

Property rates

17. The municipality did not account for property rates in accordance with GRAP 23, *Revenue from non-exchange transactions*. The municipality did not have adequate systems in place to ensure that the properties valuation as loaded on the billing system are accurate, and agrees to the monthly consumers statements and the municipality did not charge property rates to all the consumers. This resulted in propery rates being understated by R6 966 584 and property rates included in receivables from non-exchange transactions being understated with the same amount. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.

18. The municipality did not account for property rates in accordance with GRAP 23, *Revenue non-exchange transactions*.Differences were identified between the prior year closing balance of the rateable valuation roll reconciliation and the current year opening balance which resulted in an overstatement of property rates by R15 484 670 and an overstatement of property rates included in receivables from non-exchange of R15 484 670. In addition, I was unable to obtain

sufficient appropriate audit evidence to confirm property that belonged to the municipality and I could not confirm that property rates were charged for all consumers. Consequently, I was unable to determine whether any adjustments made to the property rates stated at R25 587 473 in note 26 to the financial statements was necessary. Since revenue from property rates is included in the determination of net cash flows from operating activities reported in the cash flow statements, I was unable to determine whether cash flows from operating activities are accurate and complete.

Irregular expenditure

19. The municipality did not disclose all the irregular expenditure in the notes to the financial statements, as required by section 125(2)(d)(i) of the MFMA. The municipality incurred expenditure in contravention of the supply chain management (SCM) requirements resulting in irregular expenditure being understated in the previous year that resulted in the current year closing balance being understated. I was unable to determine the full extent of the understatement as it was impracticable to do so. In addition, I was unable to obtain sufficient appropriate audit evidence regarding irregular expenditure due to the lack of evidence that management had properly identified, investigated and recorded all irregular expenditure transactions during the prior years and the lack of a proper system of internal control to support and account for and identify irregular expenditure. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustment to irregular expenditure stated at R297 871 603 (2018: R235 434 926) in note 50 to the financial statements was necessary.

Contingencies

20. I was unable to obtain sufficient appropriate audit evidence for contingencies, as the municipality did not maintain accurate and complete records on contingent liabilities. I could not confirm the amounts by alternative means. I was unable to determine whether any adjustments relating to contingencies of R18 692 000 (2018: R15 778 638) as disclosed in note 40 to the financial statements were necessary.

Commitments

21. I was unable to obtain sufficient appropriate audit evidence for commitments, as the municipality did not maintain accurate and complete records of the contractual information used to determine the commitments balance. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to commitments stated at R67 383 011 (2018: R65 735 663) in note 41 to the financial statements.

Material losses

22. I was unable to obtain sufficient appropriate audit evidence for material losses for water and electricity due to a lack of supporting documents on revenue meter readings for water and electricity. The municipality did not have adequate systems in place to account for units sold which affects the material losses disclosed. I could not confirm material losses by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to water losses stated at R10 325 006 and electricity losses stated at R6 532 899 in note 51 to the financial statements.

Context for the opinion

23. 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 this auditor's report.

24. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) as well as the 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 codes.

25. 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

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

27. I draw attention to note 46 to the financial statements, material uncertainty exist as provisions for rehabilitation and employee benefits are not cash backed, the municipality experienced cash flow problems during the year which resulted in major creditors not being paid timeously. The current liabilities exceed current assets by R190 447 513 , the municipality incurred a net deficit for the year under review of R71 078 634 as stated in note 46, these events or conditions, along with other matters as set forth in note 46, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

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

Restatement of corresponding figures

29. As disclosed in note 43 to the financial statements, the corresponding figures for 30 June 2018 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2019

Material impairments – trade debtors

30. As disclosed in note 7 to the financial statements, material losses of R423 878 632 was incurred as a result of an impairment of irrecoverable trade debtors.

Events after the reporting period

31. As disclosed in note 47 to the financial statements, the Executive Council served a Section 139 notice to the municipality on 8 April 2019, thereby formally placing it under administration.There is no material financial impact to the municipality as Coghsta is paying the administrator. The municipality is in the process of stabilising its operations and

administration. The municipality appointed the new municipal council on the 16 November 2020, and they are busy with the appointment processes of the Municipal Manager and the Chief Executive Officer.

Other matter

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

Unaudited disclosure notes (MFMA 125)

33. 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, we do not express an opinion on it.

Responsibilities of accounting officer for the financial statements

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

35. In preparing the financial statements, the accounting officer is responsible for assessing the Phokwane Local 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

36. 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.

37. 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

38. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected strategic objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

39. I was engaged to evaluate 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 strategic objectives presented in the annual performance report of the municipality for the year ended 30 June 2019:

Strategic objectives	Pages in the annual performance report
Strategic objective – Service delivery and infrastructure development	x – x

40. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

Strategic objective – Service delivery and infrastructure development

41. I was unable to audit the usefulness and reliability of this selected strategic objective as the annual performance report was presented without accurate and complete underlying performance records. This placed limitation on the scope of my work as I was unable to obtain sufficient and appropriate audit evidence and to audit the reported performance information by alternative means.

Other matter

42. I draw attention to the matter below.

Achievement of planned targets

43. 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 paragraph 41 of this report.

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 compliance of the municipality 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 legislations are as follows:

Annual financial statements and annual reports

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 .Material misstatements of non-current assets, current liabilities, 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 annual financial statements were not submitted to the Auditor-General, for auditing, within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.

48. The annual financial statements were not submitted to the Auditor-General within two months after the end of the financial year and written explanation setting out the reasons for the failure were not tabled in council as required by section 133(1)(a) of the MFMA.

49. The 2017/18 annual report was not tabled in the municipal council after the end of the financial year, as required by section 127(2) of the MFMA.

Expenditure Management

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

51. I was unable to obtain sufficient appropriate audit evidence that payments from the municipality's bank account were approved by a properly authorised official, as required by section 11(1) of the MFMA.

52. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the approval and authorisation of funds, as required by section 65(2)(a) of the MFMA.

53. 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 non-compliance with SCM regulations 32. Irregular expenditure amounting to R11 192 382 was incurred on Upgrade pampierstad bulk water infrastructure including Sakhile 1450 stands.

54. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R11 712 817, as disclosed in note 49 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 incurred on late payments.

55. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R147 361 450, as disclosed in note 48 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending of the budget.

Revenue Management

56. An adequate management, accounting and information system which accounts for revenue was not in place, as required by section 64(2)(e) of the MFMA.

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

58. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Asset Management

59. Investment policy adopted by council was not in place, as required by section 13(2) of the MFMA and municipal investment regulation 3(1)(a).

60. Capital assets were disposed of without the municipal council having in a meeting open to the public, decided on whether the assets were still needed to provide the minimum level of basic municipal services as required by section 14(2)(a) of the MFMA.

Strategic planning and performance management

61. A performance management system was not adopted, as required by municipal planning and performance management regulation 8.

62. The performance management system and related controls were not maintained as there were inadequate controls in the reporting of performance information, planning, monitoring, measurement, review and reporting processes should be conducted and managed, as required by municipal planning and performance management regulation 7(1).

Procurement and contract management

63. 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 by SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.

64. Some of the quotations were accepted from prospective providers who were not on the list of accredited prospective providers and did not meet the listing requirements prescribed by the SCM policy, in contravention of SCM regulations 16(b) and 17(b). Similar non-compliance was also reported in the prior year.

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

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

67. 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). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1). Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the development of a sport facility in Gasman project.

68. Sufficient appropriate audit evidence could not be obtained that bid specifications unbiased and allowed all potential suppliers to offer their goods or services, as required by SCM regulation 27(2)(a). Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the Upgrade Pampierstad bulk water infrastructure including Sakhalin 1450 stands project.

69. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days, as required by SCM regulation 22(1) and 22(2). Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the Upgrade Pampierstad bulk water infrastructure including Sakhile 1450 stands project.

70. Some of the competitive bids were adjudication by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2). Similar non-compliance was also reported in the prior year.

71. Some of the contracts were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b). Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the Upgrade pampierstad bulk water infrastructure including Sakhile 1450 stands project.

72. Some of the contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the development of a sport facility in Ganspan project.

73. The preference point system was not applied for some of the procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act (PPPFA). Similar non-compliance was also reported in the prior year.

74. Some of the quotations were awarded to bidders based on preference points that were not allocated and calculated in accordance with the requirements of the PPPFA and its regulations. Similar non-compliance was also reported in the prior year.

75. Some of the contracts and quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of PPPFA and Preferential Procurement Regulations (PPR). Similar non-compliance was also reported in the prior year.

76. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding, as required by the PPR. Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the upgrade Pampierstad bulk water infrastructure including Sakhile 1450 stands project.

77. Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the Construction Industry Development Board (CIDB) and qualified for the contract in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A). Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the development of a sport facility in Ganspan project.

78. Bid documentation 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. This non-compliance was identified in the procurement processes for the Upgrade Pampierstad bulk water infrastructure including Sakhile 1450 stands project.

79. Sufficient appropriate audit evidence could not be obtained that some of the commodities designated for local content and production, were procured from suppliers who submitted a declaration on local production and content as required by the 2017 preferential procurement regulation. Similar limitation was also reported in the prior year. This limitation was identified in the procurement processes for the upgrade pampierstad bulk water infrastructure.

80. Sufficient appropriate audit evidence could not be obtained that commodities designated for local content and production, were procured from suppliers who met the prescribed minimum threshold for local production and content, as required by the 2017 preferential procurement regulation 8(5)]. Similar limitation was also reported in the prior year. This limitation was identified in the procurement processes for the upgrade Pampierstad bulk water infrastructure.

81. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the upgrade Ganspan sport facility project.

Human resource management

82. The municipal manager and senior managers did not sign performance agreements within the prescribed period, as required by section 57(2)(a) of the Municipal Systems Act.

Utilisation of conditional grants

83. Performance in respect of programmes funded by the Municipal Infrastructure Grant, Water Services Infrastructure Grant and Integrated National Electrification Programme Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 1 of 2018).

Consequences management

84. 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.

85. Irregular expenditure and fruitless and wasteful 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.

Other information

86. The accounting officer is responsible for the other information. The other information 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 in this auditor's report.

87. 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 thereon.

88. 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.

89. I did not receive the other information prior to the date of this auditor's report. When we do receive and read this information, if we conclude that there is a material misstatement therein, we are 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, we 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

90. 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.

91. Management established a formal code of conduct that addressed appropriate ethical and moral behaviour, but the code was not communicated to all staff.

92. The municipality did not develop a plan to address internal and external audit findings relating to financial, performance and compliance matters.

93. Controls over the daily and monthly processing and reconciling of transactions were not performed on a regular basis, contributing to material misstatement not being prevented or detected in the financial statements.

94. The municipality did not review and monitor compliance with applicable laws and regulations.

95. The audit committee did not function throughout the year. Members were only appointed after year-end. Consequently, the committee did not approve the internal audit plan and did not oversee the implementation of the matters reported by the internal audit unit.

96. The municipality did not have sufficient monitoring controls to ensure adherence to the internal policies and procedure for strategic objectives as well as processes for taking corrective action.

97. The accounting officer did not evaluate whether management has implemented effective internal controls by gaining an understanding of how senior management has met its responsibilities relating to performance evaluation, supply chain management, financial and reporting and asset, liability, revenue and expenditure management.

Auditor General

25 February 2021

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'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 concerns basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Phokwane Local Municipality ability 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 the 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 continuing as a going concern
   - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and 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 officerregarding, 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 confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.