# Report of the auditor-general to 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 X to X, 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 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 Phokwane Local Municipality as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practise (Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 9 of 2021 (Dora).

### Basis for qualified opinion

#### Property, plant and equipment

3. The municipality did not recognise land in accordance with GRAP 17, *Property, plant and equipment*, in the current and prior year as all land owned by the municipality was not included in property, plant and equipment. I was unable to determine the impact on the net carrying value of land for the current and prior year as it was impracticable to do so. There was a resultant impact on the deficit for the period and on the accumulated surplus. [Iss.25 ]

4. The municipality did not review the residual values and useful lives of landfill sites at each reporting date in accordance with GRAP 17, *Property, plant and equipment*. As a result, landfill site assets had a zero net carrying amount while still being in use. I was unable to determine the impact on the net carrying amount of infrastructure assets and environmental rehabilitation provision as it was impracticable to do so. There was a resultant impact on the deficit for the period and on the accumulated surplus. [Iss.135,148]

#### Investment property

5. The municipality did not recognise land in accordance with GRAP 16, *Investment property*, in the current and prior year as all land owned by the municipality was not included in investment property. I was unable to determine the impact on the net carrying value of investment property for the current and prior year as it was impracticable to do so. There was a resultant impact on the deficit for the period and on the accumulated surplus. I was unable to determine if there was a resultantant impact on inventory. [Iss.57 ]

### Receivables from exchange transactions

6. The municipality did not record receivables from exchange transactions in accordance with GRAP 104, *Financial instruments*. The municipality incorrectly recorded debtors in the name of the municipality when there was no expectation that the municipality will pay their own accounts for services charges. Consequently, receivables from exchange transactions and service charges were overstated by R137 429 804 (2021: R8 285 719). There was an impact on the deficit for the period and on the accumulated surplus. [Iss.61 and 49]

7. The municipality did not record receivables from exchange transactions in accordance with GRAP 104, *Financial instruments*. The municipality incorrectly recorded receipts from debtors as unallocated deposits. Consequently, unallocated deposits was overstated and receivables from exchange transactions was overstated by R19 928 055 (2021: R19 928 056). There was an impact on the deficit for the period and on the accumulated surplus. In addition, I was unable to obtain sufficient appropriate audit evidence for the amounts of refuse included in receivables from exchange transactions due to the age analysis not reconciling to the debtors statements. I could not confirm refuse included in receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to refuse included in receivables from exchange transactions stated at R6 139 254 in the financial statements. [Iss.64, 124]

8. The municipality did not record receivables from exchange transactions in accordance with GRAP 104, *Financial instruments*, in the current and prior year due to the municipality not calculating the present value of future cash flows in estimating the allowance for impairment in the current and prior year. I was unable to determine the impact on the net carrying amount of receivables from exchange transactions as well as allowance for impairment as it was impracticable to do so. There was a resultant impact on the deficit for the period and on the accumulated surplus. [Iss 75 and 85]

### Statutory receivables from non-exchange transactions

9. The municipality did not record statutory receivables from non-exchange transactions in accordance with GRAP 104, *Financial instruments*, in the current and prior year due to the municipality not calculating the present value of future cash flows in estimating the allowance for impairment in the current and prior year. I was unable to determine the impact on the net carrying amount of statutory receivables non-exchange transactions and allowance for impairment as it was impracticable to do so. There was a resultant impact on the deficit for the period and on the accumulated surplus. [Iss 75 and 85]

10. During 2021, the municipality did not recognise property rates included in statutory receivables from non-exchange transactions in accordance with GRAP 108, *Statutory receivables*. The municipality incorrectly recorded debtors in the name of the municipality when there was no expectation that the municipality will pay their own accounts for property rates charged. Consequently, property rates included under statutory receivables from non-exchange transactions and property rates included under revenue from non-exchange was overstated by R21 187 431. My audit opinion on the financial statements for the period ended 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 property rates

included under statutory receivables from non-exchange transactions and property rates included under revenue from non-exchange for the current period. [Iss.106]

### Other receivables from exchange transactions

11. I was unable to obtain sufficient appropriate audit evidence for the amounts disclosed as other receivables from exchange transactions due to the status of the accounting records. I could not confirm other receivables from exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to other receivables from exchange transactions stated at R39 477 185 (2021: R8 991 805) in the financial statements. [Iss. 29]

### Payables from exchange transactions

12. I was unable to obtain sufficient appropriate audit evidence to confirm the balance of payments received in advance due to the municipality's financial statements not reconciling to the underlying records and the filing system not functioning effectively. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustment relating to payments received in advance included in payables from exchange transactions stated at R40 252 649 in note 14 to the financial statements was necessary. [Iss.92]

### Revenue from exchange transactions

13. I was unable to obtain sufficient appropriate audit evidence for service charges due to the poor status of the accounting records. I was unable to confirm service charges by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to service charges stated at R154 690 335 in financial statements.[Iss.149]

14. The municipality did not record revenue in all aspects in accordance with GRAP 9, *Revenue from exchange transactions* and GRAP 23, *Revenue from non-exchange transactions*. As the municipality did not have adequate systems of internal control to correctly account for availability charges, I was unable to determine the full extent of the understatement of revenue from non-exchange transactions and overstatement of revenue from exchange transactions relating to the sale of electricity and water as it was impracticable to do so. There was a resultant impact on the deficit for the period and on the accumulated surplus [Iss.138 ]

### Interest received (trading)

15. The municipality did not have adequate systems in place to account for interest received (trading) included in revenue from exchange transactions in accordance with GRAP 9, *Revenue from exchange transactions*, as the municipality did not charge interest on service charges accounts in arrears on a monthly basis. Consequently, interest received (trading) included in revenue from exchange transactions as disclosed in note 20 to the financial statements is understated by R42 083 735 and receivables from exchange transactions as disclosed in note 8 to the financial statements is understated by R42 083 735. There was an impact on the deficit for the period and on the accumulated surplus [Iss.62]

### General expenses

16. I was unable to obtain sufficient appropriate audit evidence for consulting and professional fees and inventory, spares and materials consumed included in general expenses due to the poor status of the accounting records to confirm that goods and services were received. I was unable to confirm consulting and professional fees and inventory, spares and materials consumed included by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to consulting and professional fees andinventory, spares and materials consumed stated at R73 498 895 in the financial statements. [Iss.78, 93].

17. The municipality did not recognise all items of transfers and subsidies included in general expenses in accordance with GRAP 1, *Presentation of Financial Statements*. Transfers and subsidies were incorrectly recognised as inventory, spares and materials consumed. Consequently, transfers and subsidies was understated and inventory, spares and materials consumed was overstated by R9 714 833. There was an impact on the deficit for the period and on the accumulated surplus [Iss.102]

18. During 2021, the municipality did not recognise all items of commission paid and consulting and professional fees included in general expenses in accordance with GRAP 1, *Presentation of Financial Statements*. Commission paid was incorrectly recognised as consulting and professional fees. Consequently, consulting and professional fees was overstated and commission paid was understated by R7 139 639. My audit opinion on the financial statements for the period ended 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 commission paid and consulting and professional fees for the current period. [Iss.126]

### Unauthorised expenditure

19. I was unable to obtain sufficient appropriate audit evidence for the unauthorised expenditure on the opening balance of unauthorised expenditure, due to the status of the accounting records. I could not confirm these balances by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to unauthorised expenditure stated as R 1 264 829 982 (2021: R 1 100 592 360) in note 46 to the financial statements. [Iss.46]

20. The municipality did not include unauthorised expenditure in note 46 to the financial statements, as required by section 125(2)(d) of the MFMA. The municipality overspent on the main vote. I was unable to determine the full extent of the understatement for the current year as it was impractible to do so. [Iss.102]

### Irregular expenditure

21. The municipality did not disclose all the irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. The municipality incurred expenditure in contravention of the supply chain management (SCM) requirements resulting in irregular expenditure being understated in the current and previous year that resulted in the current year closing balance, disclosed in note 49, 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 identify and account for 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 R307 886 647 (2020: R301 765 525) in note 49 to the financial statements was necessary. [Iss.27,82,97 ]

22. The municipality did not include irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. The municipality included payments made which did not contravene supply chain management requirements as there were valid deviations for the payments. Consequently irregular expenditure was overstated and deviation from supply chain management regulations was understated by R28 709 225. [Iss.54]

### Fruitless and wasteful expenditure

23. I was unable to obtain sufficient appropriate audit evidence regarding the fruitless and wasteful expenditure due to the status of the accounting records. I was unable to confirm the opening balance by alternative means. Consequently, I was unable to determine whether any adjustment to fruitless and wasteful expenditure stated at R51 273 784 (2021: R42 308 328) in note 48 to the financial statements was necessary. [Iss.30]

### Principle-agent arrangement

24. The municipality did not disclosed principle-agent arrangements in accordance with GRAP 109, *Accounting by principles and agents in financial statements*. As the municipality did not maintain adequate records of principle-agent arrangements, I was not able to determine the full extent of the understatement of principle-agent arrangements for the current and prior year as it was impracticable to do so.[Iss.33]

### Contingencies

25. I was unable to obtain sufficient appropriate audit evidence for contingencies, as the municipality did not maintain accurate and complete records on contingencies. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustments relating to contingencies of R31 000 000 (2021: R 35 144 603) as disclosed in note 39 to the financial statements were necessary.[Iss.59]

26. The municipality did not recognise all items of contingencies in accordance with GRAP 19, *Provisions, contingent liabilities and contingent*. The municipality included items that does not meet the definition of contingencies in the notes to the financial statements, resulting in an overstated amounting to R7 291 582 as disclosed in note 39 to the financial statements [Iss. 60,129 ]

27. During 2021, the municipality did not recognise all items of contingencies in accordance with GRAP 19, *Provisions, contingent liabilities and contingent*. Items that met the definition of contingencies were not included in the notes to the financial statements. Consequently, contingencies was understated by R12 422 040 as disclosed in note 39 to the financial statements. My opinion on the current year financial statements is also modified because of

the possible effect of this matter on the comparability of the contingencies for the current period. [Iss.147,129]

### Segment reporting

28. The municipality did not recognise all the activities of an entity that generates economic benefits or service potential in accordance with the requirements of GRAP 18, *Segment reporting*, as the municipality has activities that generates economic benefits, and the financial performance of the activities are regularly reviewed by management. Reportable segments is therefore not appropriately disclosed in the financial statements in terms of the reporting framework. I was unable to determine the full extent of the required disclosure of segment reporting as it was impractical to do so. [ISS.108,17]

### Deviation from supply chain management regulations

29. I was unable to obtain sufficient appropriate audit evidence for the deviations from supply chain management regulations incurred in the prior year, due to the status of the accounting records. I could not confirm these balances by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to deviations from supply chain management regulations as R 7 296 569 in note 50 to the financial statements. My opinion on the current year financial statements is modified because of the effect of this matter on the comparability of the deviations from supply chain management regulations for the current year. [Iss.143]

### Net cash flows from operating activities

30. The muncipality 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 in the current and previous year 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 R5 321 101 (2021: R62 517 128) in the financial statements were necessary. [Iss.77]

## Context for the opinion

31. 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.

32. I am independent of the municiplaity 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.

33. 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

34. I draw attention to note 45 to the financial statements, which indicates that 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 R379 065 885 as stated in note 45, these events or conditions, along with other matters as set forth in note 46, the municipality incurred a net deficit for the year under review of R161 637 213 indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

## Emphasis of matter paragraphs

35. The following emphasis of matter paragraphs will be included in our auditor's report to draw the users' attention to matters presented or disclosed in the financial statements:

### Underspending of conditional grants

36. As disclosed in the note 19, the municipality materially underspent on the conditional grants by R43 935 633 and as a results of this underspending, the conditional grants amounting to R20 000 000 (2021: R8 441 000) were withheld by Treasury.

### Restatement of corresponding figures

37. As disclosed in note 52 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.

### Material losses - electricity

38. As disclosed in note 50 to the financial statements, material electricity losses to the amount of R28 609 462 was incurred, which represents 57% of total electricity purchased.

### Material losses - water

39. As disclosed in note 50 to the financial statements, material water losses to the amount of R17 415 388 was incurred, which represents 67% of total water purchased.

## Other matter paragraphs

40. The following other matter paragraphs will be included in our auditor's report to draw the users' attention to matters regarding the audit, the auditor's responsibilities and the auditor's report:

### Unaudited disclosure notes (MFMA 125)

41. 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 for the financial statements

42. 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.

43. 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

44. 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.

45. 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

46. 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 Perfomance Area presented in the annual performance report. I was engaged to perform procedures to identify findings but not to gather evidence to express assurance.

47. 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 Perofmance Area presented in the municipality's annual performance report for the year ended 30 June 2022:

| Key Perfomance Area | Pages in the annual performance report |
|---|---|
| Key Performance Area: Basic services | x – x |

48. 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.

49. The material findings on the usefulness and reliability of the performance information of the selected Key Perfomance Area is as follows:

**Key Perfomance Area: Basic services**

## Various indicators

50. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined source information, evidence and method of collection that related systems and processes were established to enable consistent measurement and reliable reporting of the actual achievement for the indicator. This was due to a lack of measurement definitions and processes. I was unable to test whether the indicator was well-defined and verifiable by alternative means. As a result, I was unable to audit the reliability of the achievement of the following indicators:

| No | Name of indicator | Reported achivement |
|---|---|---|
| 1 | Feasibility study of bulk water system for Jankampdorp and Ganspan in providing its water supply areas with water of acceptable quality and quantity on a sustainable basis. | 100% |
| 2 | Feasibility study of bulk water system for Hartswater in providing its water supply areas with water of acceptable quality and quantity on a sustainable basis | 100% |
| 3 | Feasibility study of bulk water system for Pampiertand in providing its water supply areas with water of acceptable quality and quantity on a sustainable basis | 100% |
| 4 | Upgrade of existing asbestos water reticulation network in Pampierstand -Phase 5 and remedial works on 10ML reseviar and related bulk water distribution pipelines in Pampierstand | 0% couldn't started during this financial year due to delay in procurement process |
| 5 | New pump station and related bulk sewer outfall lines in Masakeng (Business Plan) | 0% Business plan not approved |
| 6 | Repairs and mantenance works to Phokwane municipality water treatment faciliti | 100% |

| | | |
|---|---|---|
| 7 | Augumentation and realignmnet of water supply in Ganspan | 100% |
| 8 | Upgrade of waste water pumpstations and bulk outfall lines in Pampierstand | 80% it's a 2 years project |
| 9 | Upgrade of waste water pumpstations and bulk outfall lines in Pampierstand | 80% it's a 2 years project |
| 10 | Number of samples taken | Only 192 water were taken as raw water samples were not included |
| 11 | No of water samples taken | 12 samples |

## Various indicators

51. The measures taken to improve performance against the following indicators ands targets were not reported in the annual performance report.

| No: | Planned indicators per annual planning document | Planned targets per APR | Reported actual achievement per APR |
|---|---|---|---|
| 1 | Upgrade of existing asbestos water reticulation network in Pampierstand -Phase 5 and remedial works on 10ML resevior and related bulk water distribution pipelines in Pampierstand | 60% completion | 0% couldn't started during this financial year due to delay in procurement process |
| 2 | New pump station and related bulk sewer outfall lines in Masakeng (Business Plan) | 100% completion | 0% Business plan not approved |
| 3 | Upgrade of waste water pumpstations and bulk outfall lines in Pampierstand | 100% completion | 80% it's a 2 years project |
| 4 | Upgrade of waste water pumpstations and bulk outfall lines in Pampierstand(indicator duplicated) | 100% completion | 80% it's a 2 years project |

| | | | |
|---|---|---|---|
| 5 | Number of samples taken | 216 samples | Only 192 water were taken as raw water samples were not included |

## Other matter

52. I draw attention to the matter below.

### Achievement of planned targets

53. Refer to the annual performance report on page(s) x to x; x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the disclaimer of opinions expressed on the usefulness and reliability of the reported performance information in paragraphs [x; x; x] of this report.

### Adjustment of material misstatements

54. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of basic services of Key Perfomance Area. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

# Report on the audit of compliance with legislation

## Introduction and scope

55. 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.

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

### Annual Financial statements, performance reports and annual reports

57. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion. [Iss.25,57,102,44]

58. 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.[Iss.90]

59. The annual financial statements were not submitted to the Auditor-General within two months after the end of the financial year and a written explanation setting out the reasons for the failure was not tabled in council, as required by section 133(1)(a) of the MFMA. [Iss.90]

60. The 2020/21 annual report was not made public after being tabled in council, as required by section 127(5)(a)(i) of the MFMA. [Iss.90]

61. The local community was not invited to submit representations in connection with the 2020/21 annual report, as required by section 127(5)(a)(ii) of the MFMA.[Iss.90]

62. The oversight report adopted by the council on the 2020/21 annual report was not made public, as required by section 129(3) of the MFMA. [Iss.90]

**Expenditure management**

63. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.[Iss.114; Iss.103]

64. I was unable to obtain sufficient appropriate audit evidence that payments from the municipality's bank accounts were approved by the chief financial officer or a properly authorised official, as required by section 11(1) of the MFMA.[Iss.81 and 104]

65. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the approval,authorisation,withdrawal of payment of funds, as required by section 65(2)(a) of the MFMA.[Iss.81 and 104]

66. 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 non-compliance to Supply Chain Management prescripts.

67. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed unauthorised expenditure was caused by non cash items not budgeted for.

**Revenue management**

68. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA. [Iss.69;Iss.40;Iss.73;136;62]

69. An adequate management, accounting and information system which accounts for revenue, debtors and receipt of revenue was not in place, as required by section 64(2)(e) [Iss.62 and 11]

70. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.[Issue 11 and 62]

**Asset management**

71. An effective system of internal control for assets (including an asset register) was not in place, as required by section 3(2)(c) of the MFMA. [Iss.25;Iss.50; Iss.55;Iss.57]

**Strategic planning and performance management**

72. Amendments to the IDP were made without making the proposed amendments available for public comment, as required by section 34(b) of the MSA and municipal planning and performance management regulation 3(4)(b).[Iss.90]

73. A performance management system was not adopted, as required by municipal planning and performance management regulation 8.[Iss.74]

**Procurement and contract management**

74. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements as due to the status of accounting records.[Iss.139]

75. 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(1)(a) and (c).[Iss.120]

76. Sufficient appropriate audit evidence could not be obtained that written quotations were accepted from prospective providers who were on the list of accredited providers and met the listing requirements as precsribed by the SCM policy, in contravention of SCM Regulations 16(b) and 17(1)(b). [Iss.122]

77. Some of the quotations were accepted from 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 ) [Iss.9;Iss.119]

78. 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).[Iss.110]

79. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM Regulation 22(1) and 22(2). [Iss.140]

80. 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). [Iss.95]

81. Some of the commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content as required by the 2017 Preferential Procurement Regulation 8(5). [Iss.95]

82. Some of the commodities designated for local content and production, were procured from suppliers who did not meet the prescribed minimum threshold for local production and content, as required by the 2017 Preferential Procurement Regulation 8(5). [Iss.95]

83. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM Regulation 5. [Iss.117 and 144]

84. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. [Iss.117 and 144]

85. Awards were made to providers who were in the service of other state institutions, in contravention of MFMA 112(1)(j) and SCM Regulation 44. [105]

### Utilisation of conditional grants

86. Performance in respect of programmes funded by the Municipal Infrastructure Grant, Water Systems Grant and Intergrated National Electrification 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 9 of 2021). [Iss.145]

### Consequence management

87. 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.[Iss.115]

88. Irregular 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.[Iss.15]

89. Cases of financial misconduct which constitute a crime committed by officials were not always reported to the South African Police Service, as required by the municipal regulations on financial misconduct procedures and criminal proceedings 10(1).[Iss.151]

## Other information

90. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, the other information does not include the financial statements, the auditor's report and those selected Key Perfomance Area presented in the annual performance report that have been specifically reported in this auditor's report.

91. 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.

92. 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 Perfomance Area presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

93. 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

94. 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.

95. The matters above, as they relate to the basis for the qualified of opinion, findings on the annual performance report and findings on compliance with legislation, will be summarised in the auditor's report as follows:

96. The accounting officer did not exercise oversight responsibility regarding the financial reporting, compliance and related internal controls, as they did not ensure that adequate reviews were performed on the financial statements and the annual performance report prior to submission for audit.

97. The accounting officer did not implement an action plan to monitor and address external audit findings to ensure that compliance matters that were raised in the previous year were addressed in the current year.

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

## Material irregularities

99. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit.

### Material irregularities identified during the audit

#### Interest on overdue account not charged

100. In terms of MFMA section 64(2)(g), it states that the accounting officer of a municipality must for the purposes of subsection (1) take all reasonable steps to ensure that – the municipality charges interest on arrears, except where the council has granted exemptions in accordance with its budget-related policies and within a prescribed framework.

101. We identified that the municipality did not charge interest on debtors with outstanding balance for a period of more than 30 days.

102. Communication of audit findings 1 of 2022 was issued to management on 8 February 2023 to communicate the non-compliance and management agrees with the finding.

103. Management also indicated that there was no Council resolution exempting these accounts from incurring interest charges on late payments. As a result, the failure by the municipality to charge interest on these accounts resulted in a possible loss. Preliminary investigations by management shows that this was a system related issue. The municipality is in the process of investigating the exact cause for the financial loss, the exact amount and periods affected. This will assist in determining measures to avoid the same challenges in future and/or measures to recover the amounts.

104. The above-mentioned matters collectively result in a non-compliance with section 64(2)(g) of the MFMA that requires the resources of the municipality to be used effectively, efficiently and economically.

105. I will follow up on the progress of the material irregularity during my next audit.

## Other reports

106. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

107. An investigation is currently underway by the Directorate for Priority Crime Investigation (HAWKS) into payments made by the municipality. No report was available at the time of this report.

Kimberley

Date of signing

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 Key Perfomance Area 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 Phokwane 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.