Auditing to build public confidence

AUDITOR-GENERAL
SOUTH AFRICA

Report of the auditor-general to the North West Provincial Legislature and the council on the Moses Kotane Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Moses Kotane Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2021, and the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects 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 Moses Kotane Local Municipality as at 30 June 2021, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 4 of 2020 (Dora).

Basis for qualified opinion

General expenses

3. I was unable to obtain sufficient appropriate audit evidence for general expenses as the municipality did not maintain adequate supporting documentation to confirm whether some of the goods and services paid for were received. I was unable to confirm this general expenditure by alternative means. Consequently, I was unable to determine whether any adjustment to the IT expenses of (2020: R58 671 049) as disclosed in note 33 to the financial statements was necessary.

Irregular expenditure

4. Section 125 of the MFMA requires the disclosure of irregular expenditure incurred. The municipality did not disclose irregular expenditure in the correct period as irregular expenditure incurred in the previous year was only disclosed in the current year. Consequently, the corresponding figure of irregular expenditure as disclosed in note 48 to the financial statements was understated by R17 098 177. My opinion on the current year financial statements is modified because of the effect of this matter on the comparability of irregular expenditure for the current period.

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 this auditor's 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.

Material uncertainty relating to going concern

8. I draw attention to the matter below. My opinion is not modified in respect of this matter.
9. As disclosed in note 45 of the financial statements the municipality is experiencing cash flow challenges as a result of low the debtors collection rate, which had an impact on the municipality's ability to pay creditors timeously. This, along with other matters disclosed in the note, resulted in a material uncertainty for the municipality to continue as a going concern as it has to rely on grants in order to meet the working capital.

Emphasis of matters

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

Unauthorised and fruitless and wasteful expenditure

11. As disclosed in note 46 to the financial statements, unauthorised expenditure of R133 233 930 was incurred in the current year and the unauthorised expenditure of R99 291 714 in respect of prior years have not yet been dealt with in accordance with section 32 of the MFMA
12. As disclosed in note 47 to the financial statements, fruitless and wasteful expenditure of R2 822 000 was incurred in the current year and the fruitless and wasteful expenditure of R111 943 868 in respect of prior years have not yet been dealt with in accordance with section 32 of the MFMA.

Other matters

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

Unaudited disclosure notes

14. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Unaudited supplementary schedules

15. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

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 GRAP and the requirements of the MFMA and

the Dora and for such internal control as the accounting officer determines it 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 Moses Kotane 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 there is 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 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 the 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 material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify 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 also did not extend to any disclosures or assertions relating to 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 objectives presented in the annual performance report of the municipality for the year ended 30 June 2021:

Objectives	Pages in the annual performance report
KPA 3: basic service delivery and infrastructure development	x – x

23. 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.

24. The material findings in respect of the usefulness and reliability of the selected objective are as follows:

KPA 3: Basic service delivery and infrastructure development

Various indicators

25. The indicators and targets listed below were changed without the necessary approval.

Indicator number	SDBIP	APR	Reported achievement
KPI 26	Number of km of internal roads constructed in Madikwe (China Section)	Number of km of paved internal roads constructed in Madikwe (China section)	Not achieved - 0 km
KPI 27	Number of km of internal roads constructed in Ramoga	Number of km of paved internal roads constructed in Ramoga	Not achieved - 0 km
KPI 28	Number of km of internal roads constructed in Tlokweng	Number of km of paved internal roads constructed in Tlokweng	Not achieved - 0 km
KPI 29	Number of km of internal roads constructed in Mabodisa	Number of km of paved internal roads constructed Mabodisa	Achieved – 2.4 km
KPI 30	Number of km of internal roads constructed in Mmorogong	Number of km of paved internal roads constructed in Mmorogong	Achieved – 2.9 km
KPI 31	Number of km of internal roads constructed in Montsana	Number of km of paved internal roads constructed in Montsana	Achieved – 3 km
KPI 32	Number of km of internal roads constructed in Leruleng	Number of km of paved internal roads constructed in Leruleng	Achieved – 2.7 km
KPI 33	Number of km of internal roads constructed in Lugkraal	Number of km of paved internal roads constructed in Lugkraal	Achieved – 1.95 km

Various indicators

26. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined source information and method of collection or that related systems and processes were established to enable consistent measurement and reliable reporting of the actual achievement of the indicators listed below. This was due to a lack of measurement definitions and processes. I was unable to confirm that the indicators are well-defined and verifiable by alternative means. As a result, I was unable to audit the reliability of the achievements reported in the annual performance report of the listed indicators.

Indicator number	Indicator description	Target	Reported achievement
KPI 15	Number of households with access to basic level of water	75 186 households with access to basic level of water 30 June 2021	Achieved – 75 186 households with access to water service
KPI 59	Number of households which have access to solid waste removal	75 186 of households which have access to solid waste removal by June 2021	Not achieved – Waste collection has been provided to nine clusters; however, there is no substantive evidence in terms of number of households

KPI 6: Percentage of bulk water augmentation constructed in Lerome

27. The reported achievement in the annual performance report of "55% completion of bulk water augmentation project" for this indicator against the target of "100% bulk water augmentation constructed in Lerome" did not agree with the supporting evidence provided and materially differed from the reported achievement.

KPI 5: Percentage of Makoshong water supply refurbished

28. The reported achievement in the annual performance report for this indicator was not consistent with the planned indicator and target of "percentage of Makoshong water supply refurbished", as the reported achievement referred to "percentage completion of water supply project".

Other matter

29. I draw attention to the matter below.

Achievement of planned targets

30. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs xx to xx of this report.

Report on audit of compliance with legislation

Introduction and scope

31. 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.
32. The material findings on compliance with specific matters in key legislation are as follows:

Financial statements

33. 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 disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

34. Reasonable steps were not taken to prevent irregular expenditure in contravention of section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for modified opinion paragraph. The majority of the disclosed irregular expenditure was caused by management's non-compliance with the competitive bidding process. This non-compliance was also reported in the prior year.
35. Reasonable steps were not taken to prevent unauthorised expenditure of R133 238 930 as disclosed in note 46 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending on certain votes within the budget. This non-compliance was also reported in the prior year.
36. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R2 822 000 as disclosed in note 47 to the financial statements, in contravention of section 62(1)(d) of the

MFMA. The majority of the fruitless and wasteful expenditure was caused by interest being charged on overdue accounts for bulk water purchases. This non-compliance was also reported in the prior year

Consequence management

37. Unauthorised, irregular and 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(a) and (b) of the MFMA.

Procurement and contract management

38. 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.
39. Some of the contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43. Similar non-compliance was also reported in the prior year.
40. 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).
41. 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 Turnkey Lerome Bulk Water Scheme and Pella Water Supply Phase.

Other information

42. 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 thereon and those selected objectives presented in the annual performance report that have been specifically reported on in this auditor's report.
43. 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.
44. 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 objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
45. If, based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

46. 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 thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified of opinion, the

findings on the annual performance report and the findings on compliance with legislation included in this report.

- The municipality's leadership did not exercise adequate oversight over financial and performance reporting, compliance monitoring and related internal controls. The municipality did not have sufficient monitoring and reviewing controls to ensure that financial and performance reports submitted for auditing were accurate and complete and that action plans developed were adequately and timeously implemented to address all prior year audit findings.
- Management's internal controls and processes over the preparation and presentation of financial statements, performance reports and compliance monitoring were not able to ensure that the reports were free from material misstatements and material deviations from legislation. Management did not adequately implement controls to comply with laws and regulations as well as to ensure reliable and accurate financial and performance reporting.
- The management of the municipality did not follow up on the recommendations by internal audit and the audit committee, as a number of material misstatements were identified during the audit, which could have been prevented had proper oversight been implemented. The reviews performed were not adequate to prevent and identify material misstatements prior to the submission of the financial statements and performance report.

Other reports

47. I draw attention to the following engagements conducted by various parties that 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. This report did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Investigations

48. An allegation of fraud that occurred in the 2018-19 financial year was referred to the Directorate for Priority Crime Investigation (DPCI) for investigation. The investigation was still in progress at the date of this report.

Auditor-General

Rustenburg

30 November 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 objectives 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 the 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 related to events or conditions that may cast significant doubt on the Moses Kotane Local Municipality's 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 the auditor's report. However, future events or conditions may cause a municipality to cease to continue 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 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 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.