COMPONENT B: AUDITOR-GENERAL's OPINION 2020/21

6.2 AUDITOR-GENERAL'S REPORT 2020/21

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 City of Matlosana

Report on the audit of the financial statements

Opinion

1. In my opinion, the financial statements present fairly, in all material respects, the financial position of the City of Matlosana 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).

Context for the opinion

2. 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.

3. 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.

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

Material uncertainty relating to going concern

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

6. The statement of financial performance indicates that the municipality incurred an operating deficit of R235 960 542 during the year ended 30 June 2021, and at this date the municipality's total current liabilities exceeded its total current assets by R1 247 081 417. These conditions, along with other matters as set forth in note 43, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

Emphasis of matters

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

Material losses and impairments

8. As disclosed in note 12 to the financial statements, the consumer debtors' balance has been significantly impaired. The allowance for impairment of consumer debtors amounts to R5 039 633 689 (2020: R3 955 146 927) which represents 90% (2020: 88%) of total consumer debtors. In addition, as disclosed in note 33 to the financial statements, contributions of R1 149 479 591 (2020: R835 011 553) to the debt impairment provision were incurred as a result of significant impairment of debtors.

9. As disclosed in note 34 to the financial statements, the municipality incurred distribution losses on electricity and water in excess of the norms of 34% (2020: 29%) and 42% (2020: 34%) respectively.

Unauthorised, irregular and fruitless and wasteful expenditure

10. As disclosed in note 45 to the financial statements, unauthorised expenditure of R642 450 889 was incurred in the current year and unauthorised expenditure of R2 590 381 551 in respect of prior years have not yet been dealt with in accordance with section 32 of the MFMA.

11. As disclosed in note 46 to the financial statements, fruitless and wasteful expenditure of R274 306 was incurred in the current year and fruitless and wasteful expenditure of R85 231 964 from 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, irregular expenditure of R329 356 553 was incurred in the current year and irregular expenditure of R3 335 984 836 from prior years have not yet been dealt with in accordance with section 32 of the MFMA.

Restatement of corresponding figures

13. As disclosed in notes 52 and 53 to the financial statements, the corresponding figures for 30 June 2020 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2021.

Material underspending of the budget

14. As disclosed in the statement of comparison of budget and actual amounts the municipality underspent on capital expenditure by R48 052 435 due to the lock down which affected the implementation of certain capital projects.

Other matters

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

Unaudited disclosure notes

16. 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

17. The supplementary information set out on page 454 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

18. 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 is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

19. In preparing the financial statements, the accounting officer is responsible for assessing the City of Matlosana'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

20. 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.

21. 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

22. 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 usefulness and reliability of the reported performance information against predetermined objectives for selected key performance areas (KPA) presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

23. 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.

24. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected key performance area presented in the annual performance report of the municipality for the year ended 30 June 2021:

Key performance area	Pages in the annual performance report
KPA 1 – Basic service delivery and infrastructure development	167 – 188; 199 – 200; 228; 241; and 252 - 254

25. 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.

26. I did not identify any material findings on the usefulness and reliability of the reported performance information on the selected key performance area of the municipality.

Other matter

27. I draw attention to the matter below.

Achievement of planned targets

28. Refer to the annual performance report on pages 167 – 258 for information on the achievement of planned targets for the year and explanations provided for the under/overachievement of a number of targets.

Report on audit of compliance with legislation

Introduction and scope

29. 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.

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

Financial statements

31. 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 classes of transactions, non-current assets and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

32. 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.

Expenditure management

33. Reasonable steps were not taken to prevent unauthorised expenditure of R642 450 889, as disclosed in note 45 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by insufficient budget for the impairment on the consumer and other debtors.

34. Reasonable steps were not taken to prevent irregular expenditure of R329 356 553 as disclosed in note 47 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by the municipality not adhering to supply chain regulations regarding all aspects of procurement.

Procurement and contract management

35. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(1)(a) and (c). Similar non-compliance was also reported in the prior year.

36. Sufficient appropriate audit evidence could not be obtained that tenders which failed to achieve the minimum qualifying score for functionality were disqualified as unacceptable tenders in accordance with 2017 Preferential Procurement Regulation 5(6).

37. Sufficient appropriate audit evidence could not be obtained that tenders which failed to achieve the minimum qualifying score for functionality were not evaluated further in accordance with 2017 Preferential Procurement Regulation 5(7).

38. Invitations to tender for procurement of commodities designated for local content and production, did not stipulate 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.

Revenue management

39. An effective system of internal control for all debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA. The non-compliance resulted in a material irregularity, as reported in the section on material irregularities.

Consequence management

40. 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 of the MFMA.

Other information

41. 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 key performance areas presented in the annual performance report that have been specifically reported on in this auditor's report.

42. 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.

43. 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 areas presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

44. I did not receive the other information prior to the date of this auditor's report. After I receive and read this information, and if I conclude that there is a material misstatement, 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

45. 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 findings on compliance with legislation included in this report.

- Leadership did not ensure that adequate policies and procedures were implemented to enable and support the understanding and execution of internal controls, processes and responsibilities, resulting in the recurrence of material findings over financial information and compliance with laws and regulations.

- Management's internal controls and processes over the preparation and presentation of financial statements were not adequate to ensure that they were free from material misstatements. Non-compliance with laws and regulations could have been prevented had compliance been properly reviewed, monitored and control measures implemented. Furthermore, the action plans to address prior year audit findings were not adequately implemented and monitored.

- Management do not have an adequate risk strategy that addresses identified risks in supply chain management. Furthermore, the effectiveness of the audit committee and internal audit's role as an assurance provider was compromised by management's inability to adequately address and react to internal audit's findings and recommendations.

Material irregularities

46. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of the material irregularities reported in the previous year's auditor's report.

Material irregularities identified during the audit

47. The material irregularities identified are as follows:

Market dues not collected

48. The municipality has a market where fresh produce are sold on a daily basis and market dues are payable to the municipality at an agreed percentage of the total turnover. All money due to the municipality for the sales at the fresh produce market were not collected, which is in contravention with MFMA section 65(2)(f) that requires that the accounting officer must take all reasonable steps to ensure that the municipality has and maintains a system of internal control in respect of debtors and revenue. This non-compliance resulted in a material financial loss of R33 486 573 to the municipality for the financial years 2017-18, 2018-19 and 2019-20. In the current year a further loss of R9 836 700 was incurred as disclosed in note 37 to the financial statements.

49. The accounting officer was notified of the material irregularity on 31 March 2021 and invited to make a written submission on the actions taken or to be taken to address the matter. The accounting officer indicated that the following actions have been taken or planned to address the material irregularity:

- An independent service provider was appointed to conduct an investigation to determine the cause of the loss and which officials should be held liable. The investigation was concluded during April 2021.

- The accounting officer subsequently initiated disciplinary steps against all ten (10) implicated officials based on the outcome of the investigation, after which two (2) officials resigned and two (2) officials were dismissed. The disciplinary process of the remaining six (6) other officials are in progress, and the municipality indicated that the process will be finalised by the 15th of March 2022.

- Immediately after the dismissal of the two (2) officials and the resignation of the other two (2) officials mentioned above, the municipality instructed the attorneys to initiate legal action against the four officials for the recovery of the losses. At the date of this report the matter was still on going and is expected to be finalised within the next three months.

- Investigation reports relating to the matter were immediately referred to the Directorate for Priority Crime Investigation (Hawks) for further action and it is ongoing at the date of this report.

50. I will follow up on the implementation of the planned actions as they become due.

Material irregularities in progress

51. We identified other material irregularities during the audit and notified the accounting officer thereof as required by material irregularity regulation 3(2). By the date of this report, I had not yet completed the process of evaluating the responses from the accounting officer. These material irregularities will be included in the next year’s auditor’s report.

Other reports

52. In addition to the investigations relating to material irregularities, 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. 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.

Investigations

53. The South African Police Service are conducting several investigations into the awarding of tenders by the municipality, prompted by the accounting officer in the prior year. These investigations were still on going at the date of this report.

54. The South African Police Service is conducting an investigation into alleged irregularities at the fresh produce market, prompted by the accounting officer in the prior year. The investigation was still on going at the date of this report.

55. During 2015, a consulting firm was requested by the North West Office of the Premier, to conduct an investigation into allegations of financial misconduct at the municipality. The investigation was completed and a report with recommendations issued to the Office of the Premier, but at the date of this report, it has not been tabled in the council. The accounting officer referred the report to the Directorate for Priority Crime Investigation (Hawks) for further action, which was still on going at the date of this report.

Auditor General

Rustenburg

31 January 2022

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected key performance areas 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 City of Matlosana'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. Annexure – Auditor-General's responsibility for the audit

COMMENTS ON AUDITOR-GENERAL'S OPINION ON FINANCIAL PERFORMANCE - 2020/21

Management is pleased that the municipality obtained unqualified audit opinions for the financial statements.

This is notwithstanding the operational difficulties experienced due to COVID-19. It is also an indication of the effort from management, the employees in the different sections, the assistance from the service provider as well as the good working relationship with the Auditor-General.

Management is also aware that to not regress and to improve the opinions going forward, that attention to matters noted in the audit must be addressed. It will therefore formulate the post audit action plan which will be monitored by the audit steering committee on a regular basis.

At present the PAAP is not ready but will be implemented as soon as the detailed management report is available.

COMMENTS ON AUDITOR-GENERAL'S OPINION ON PERFORMANCE MANAGEMENT - 2020/21

Performance Management received a clean audit opinion from the Auditor-General.

BO KGOETE
ACTING CHIEF FINANCIAL OFFICER **23 FEBRUARY 2022**