

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

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Fetakgomo- Tubatse Local Municipality set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2021 statement of financial performance, statement of changes in net assets and statement of cash flows 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, the financial statements present fairly, in all material respects, the financial position of Fetakgomo-Tubatse local municipality as at 30 June 2021, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practise (Standard of GRAP) and the requirements of the Municipal Finance Management Act, 2003 (Act No.56 of 2003) (MFMA) and the Division of Revenue Act, 2020 (Act No.4 of 2020) (DoRA).

### Basis for opinion

3. 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.
4. 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Emphasis of matters paragraphs

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

### Restatement of comparative figures

7. As disclosed in note 50 and 51 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.

## Uncertainty relating to the future outcome of litigation

8. With reference to note 48 to the financial statements, the municipality is the defendant in several litigations. The municipality is opposing these claims as it believes there are reasonable grounds to defend each claim. The ultimate outcome of these matters could not be determined and no provision for any liability that may result was made in the financial statements.

## Underspending of the conditional grants

9. As disclosed in note 17 to the financial statements, the municipality materially underspent the conditional grants by R 77 213 638, significant underspending was noted under Municipal infrastructure grant and the Intergraded national electrification programme.

## Material impairment- trade debtors

10. As disclosed in note 40 to the financial statements, material losses of R 77 629 681 was incurred as a result of non-payment by consumers.

## Other matters

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

## Unaudited disclosure notes

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

## Responsibilities of the accounting officer for the financial statements

13. 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 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.
14. 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

15. 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 based on these financial statements.

16. 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**

17. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
18. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality’s approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
19. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the municipality’s annual performance report for the year ended 30 June 2021:

Key Performance Area	Pages in the annual performance report
KPA 3 – Basic Service Delivery and Infrastructure	49 – 74

20. 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.
21. The material findings on the usefulness and reliability of the performance information of the selected development priorities are as follows:

**Basic service delivery and infrastructure**

Various Indicators

22. The reported planned targets in the annual performance report (APR) and Service delivery budget implementation plan (SDBIP) are not consistent with the planned target as per the approved integrated development plan:

Indicator	2020/21 Target as per planning document: Integrated Development Plan (IDP) and original SDBIP	2020/21 Planned Annual Target as per APR and the revised SDBIP
Completion of the Strydkraal community haa internal street	100% Completion in Construction of the Strydkraal Community Hall internal street	10% completion in construction of Strykraal community hall internal
Completion of Motodi Sports Complex	50% Completion of construction of the Motodi Sports Complex	40% Completion of construction of the Motodi Sports Complex

### Other matters

23. I draw attention to the matters below.

#### Achievement of planned targets

24. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the year and management's explanations provided for the under achievement of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph 21 of this report.

#### Adjustment of material misstatements

25. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of KPA 2: Basic service delivery and Infrastructure development of development priority. 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

26. 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.

## Annual financial statements, performance and annual report

27. 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 current assets, liabilities, revenue, cash flow statement and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving a unqualified audit opinion

## Procurement and contract management

28. 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).
29. 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). Similar non-compliance was also reported in the prior year.
30. Some of the written quotations were accepted from prospective providers who were not on the list of accredited prospective providers and did not meet the listing requirements prescribed by the SCM policy, in contravention of Supply Chain Management (SCM) Regulations 16(b) and 17(1)(b).
31. 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). Similar non-compliance was also reported in the prior year.

## Expenditure management

32. Reasonable steps were not taken to prevent irregular expenditure amounting to R130 606 881 as disclosed in note 57 to the annual financial statements, as required by section 62(1) (d) of the MFMA. The majority of the irregular expenditure was caused by awards made in contravention of Municipal Supply Chain Management Regulations.
33. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R 5 668 684, as disclosed in note 56 to the annual financial statements, in contravention of section 62(1) (d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest on overdue accounts and legal costs.
34. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R 94 300 362, as disclosed in note 55 to the annual financial statements, in contravention of section 62(1) (d) of the MFMA. The majority of the unauthorised expenditure consists of non-cash items and Contracted services.

## Consequence management

35. Some of the irregular 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.

36. Some of the fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

### **Asset management**

37. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

### **Other information**

38. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report.
39. 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.
40. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

### **Internal control deficiencies**

41. 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 findings on the annual performance report the findings on compliance with legislation included in this report.
42. The accounting officer did not adequately review the annual performance report and financial statements prior to submission as material misstatements were not identified by the municipality's internal controls.
43. The accounting officer did not adequately prepare regular, accurate and complete financial statements that is supported by reliable information.
44. The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls within the current financial year.

## Material Irregularity

45. In accordance with the PAA and the material irregularities regulations, I have a responsibility to report on material irregularities identified during the audit.

46. The material irregularity identified was as follows:

### Prohibited Investment with a Mutual Bank

47. Fetakgomo-Tubatse local municipality invested a total of R 230 million. On the Investments made the municipality, accrued interest amounting to R15 146 857. The local municipality did not comply with the Municipal Investment Regulations as VBS mutual bank is not registered in terms of the Bank's Act. The non-compliance is likely to result in a financial loss of R 245 146 632.00 for the municipality if the amount invested is not recovered in full from the estate of VBS Mutual Bank..

48. The accounting officer was notified of the material irregularity on 25 November 2021 and invited him to make a written submission on the actions taken and that will be taken to address the material irregularity. On 26 January 2022 the accounting officer submitted a written response and indicated the action was taken as follows:

- On 15 November 2018, the municipal council resolved to place both former accounting officer and chief financial officer on suspension. The chief financial officer subsequently resigned on 31 July 2018 and the accounting officer on 30 September 2019.
- On 13 December 2018, the municipal council approved to initiate disciplinary processes against the municipal manager and the chief financial officer. Council approved the appointment of an independent service provider to commence with internal disciplinary proceedings and prefer charges against the afore-mentioned suspended officials. Council further approved that civil recovery measures be instituted against all who are implicated in the financial misconduct of irregular investments with VBS.
- On 11 April 2019, the municipal council further resolved that the accounting officer instruct the attorney of municipality to lodge and process the claim for the repayment of investments deposits made against the appointed VBS liquidator.
- The municipality lodged the claim against appointed VBS liquidator. Subsequent to 2020/2021 financial year-end the municipality received a confirmation that the municipality was allocated R16 100 000.00 from the Liquidator.

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

## Other reports

50. I draw attention to the following engagement which could have, an impact on the matters reported in the municipality's financial statements. 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.
51. Overpayment of the supplier in relation to Valuation roll contract Investigated by the Directorate for Priority Crime Investigation.

*Auditor-General*

Polokwane

28 January 2022



AUDITOR - GENERAL  
SOUTH AFRICA

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## **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 '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 '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 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 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 communicated 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 provided 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.