

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

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the Fetakgomo-Tubatse Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2020, 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 the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Fetakgomo-Tubatse Local Municipality as at 30 June 2020, and its financial performance and cash flows for the year then ended in accordance with Standards of Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act, 2003 (Act No 56 of 2003) (MFMA) and Division of Revenue Act, 2019 (Act No 16 of 2019) (DoRA).

### Basis for qualified opinion

#### Cash and cash equivalents

3. The municipality did not have adequate systems in place to maintain records of cash and cash equivalents. I identified transactions (payments) amounting to R13 267 351 that were processed by the bank but not processed in the general ledger. Consequently, cash and cash equivalents were overstated by R13 267 351 and trade and other payables overstated by the same amount. Since these payments are included in the determination of net cash flows from operating activities reported in the cash flow statements, I was unable to determine whether cash flows from operating activities are accurate and complete

#### Irregular expenditure

4. The municipality did not include all irregular expenditure in the notes to the financial statements, as required by section 125(2)(d)(i) of the MFMA. The municipality incurred expenditure in contravention of the supply chain management (SCM) requirements resulting in irregular expenditure being understated in both the current and previous year. I was unable to determine the full extent of the understatement as it was impracticable to do so. Consequently, I was unable to determine whether any further adjustment was necessary to irregular expenditure stated at R606 881 850 (2019: R469 420 742) in note 56 to the financial statements.

## Commitments

5. During 2019, the municipality did not have adequate systems in place to maintain records of commitments. I identified commitments for contracts that were incorrectly calculated, as internal controls had not been established over the recording of these transactions in the accounting records. I was unable to determine the full extent of the misstatements on commitments stated at R466 667 231 as it was impracticable to do so. My audit opinion on the financial statements for the period ended 30 June 2019 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of the commitments for the current period.

## Context for the opinion

6. 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.
7. 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.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## Emphasis of matters

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

## Restatement of comparative figures

10. As disclosed in note 49 to the financial statements, the corresponding figures for 30 June 2019 were restated as a result of errors in the financial statements of the municipality for the year ended 30 June 2020.

## Unauthorised Expenditure

11. As disclosed in note 54 to the financial statements, the municipality incurred unauthorised expenditure of R 29 615 100 due to exceeding the budget

## Underspending of the conditional grants

12. As disclosed in note 16 to the financial statements, the municipality underspent the conditional grants by R119 183 212.

## **Other matters**

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

### **Unaudited supplementary schedules**

14. The supplementary schedule set out on pages xx to xx does not form part of the financial statement and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

### **Unaudited disclosure notes**

15. 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**

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

17. 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**

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 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.

19. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## Introduction and scope

20. In accordance with the Public Audit Act of South Africa 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report 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.
21. My procedures address the usefulness and reliability of the reported performance information, which must be based on the approved performance planning documents of the municipality. 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 do 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 development priorities presented in the annual performance report of the municipality for the year ended 30 June 2020:

Development priorities	Pages in the annual performance report
KPA 3 – Basic services and infrastructure	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.

Sufficient evidence not submitted for audit.

24. I was unable to obtain sufficient appropriate audit evidence for the achievement of 7308 households who received Free Basic electricity (FBE) reported against target of 9 000 Indigent households receiving FBE in the annual performance report, due to the lack of accurate and complete records. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement.

Performance Indicator	Planned performance target	Reported performance achievement
Free Basic Electricity	9 000 Indigent households receiving FBE	Target Not Achieved. Average of 7308 households received FBE.

## Various Indicators

25. I identified that management planned and reported in the current year the performance targets that were planned, achieved and reported in the prior year 2018-19.

Performance indicator	Planned annual performance target	Reported performance achievement
Completion date for the development of Municipal infrastructure Master plans	31 December 2019 Completion date for the development of Municipal infrastructure Master plans	Target Achieved Development of Municipal infrastructure Master plans is completed
Completion date of conducting feasibility study on capacity for water authority	31 December 2019 feasibility study on capacity for water authority completed	Target Achieved feasibility study on capacity for water authority is completed and adopted by Council
Completion date of conducting feasibility study on capacity for electricity authority	31 December 2019 feasibility study on capacity for electricity authority completed	Target Achieved feasibility study on capacity for electricity authority is completed and adopted by Council

26. The following target was reported as not achieved, however the supporting evidence indicated that the set target is met

Performance indicator	Planned annual performance target	Reported performance achievement
Motodi Sports Complex (multi-year)	60% progress in construction of Motodi Sports Complex:	<u>Target Not Achieved</u> The overall progress of the project was at 60.66% (61%) completion by the end of the financial year.

## Other information

27. I draw attention to the performance indicators below. Our opinion is not modified in respect of these matter.

### Achievement of planned targets

28. Refer to the annual performance report on pages 49 to 66 for information on the achievement of planned targets for the year. This information should be considered in the context of the qualified opinions expressed on the usefulness and reliability of the reported performance information in paragraphs 26 to 30 of this report.

### Adjustment of material misstatements

29. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Fetakgomo Tubatse Local Municipality of KPI 3- Basic services and infrastructure development. Those that were not corrected are included in the basis for qualified of opinion paragraphs.

### **Responsibilities of the accounting officer for the reported performance information**

30. The accounting officer is responsible for the preparation of the annual performance report in accordance with the prescribed performance management and reporting framework set out in annexure D to this report, and for such internal control as the accounting officer determines is necessary to enable the preparation of performance information that is free from material misstatement in terms of its usefulness and reliability.

### **Auditor-general's responsibilities for the reasonable assurance engagement on the reported performance information**

31. My objectives are to obtain reasonable assurance about whether the reported performance information for the selected development objectives presented in the annual performance report is free from material misstatement, and to issue a management report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that the assurance engagement conducted in accordance with the relevant assurance standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if they could reasonably be expected to influence the relevant decisions of users taken on the basis of the reported performance information.
32. My procedures address the usefulness and reliability of the reported performance information, which must be based on the approved performance planning documents of the municipality. We have not evaluated the appropriateness of the performance indicators established and included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures also do not extend to any disclosures or assertions relating to planned performance strategies and information relating to future periods that may be included as part of the reported performance information. Accordingly, our opinion does not extend to these matters.
33. A further description of our responsibilities for the reasonable assurance engagement on reported performance information is included in annexure E to this report.

## **Report on the audit of compliance with legislation**

### **Introduction and scope**

34. 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.
35. The material findings on compliance with specific matters in key legislation are as follows:

### **Annual financial statements, performance and annual report**

36. 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.

37. 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/or the supporting records were provided subsequently, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

### **Procurement and contract management**

38. 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)

39. Some of the quotations were accepted from bidders whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.

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).

41. 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).

42. Some of the contracts were awarded to bidders based on preference points that were not calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act, 2000 (Act No 5 of 2000) and its regulations.

### **Expenditure management**

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

44. 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 awarding contracts in contravention with SCM regulation.

45. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R10 415 133, as disclosed in note 55 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 above market related rental payments.

### **Assets management**

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

### **Consequences management**

47. 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.

48. 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.

#### Other information

49. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes 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.
50. 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.
51. 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

52. 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.
53. The accounting officer did not adequately review the annual performance report and financial statements prior to submission for audit resulting in material misstatements which were identified during the audit
54. The municipality did not adequately review and monitor compliance with applicable procurement legislation and the MFMA
55. There was inadequate review of the financial statements and the annual performance report, resulting in several misstatements not identified and corrected timeously.
56. Supply chain management processes were inadequate resulting in irregular expenditure.
57. The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls within the current financial year.

#### Other reports

58. 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.

60. The Special Investigating Unit (SIU) investigated Project Mabone. The matter was finalised and referred to National prosecuting authority for prosecution.

*Auditor-General*

Polokwane

19 April 2021



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 development priorities and on the Municipality’s compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
  - identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipality’s 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 Fetakgomo 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
  - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

### **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, actions taken to eliminate threats or safeguards applied.