

# Report of the auditor-general to Limpopo Provincial Legislature and Council on Mopani District Municipality

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the Mopani District 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, statement of cash flows 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 possible effects of the matters described in the basis for qualified opinion section of this report, the financial statements present fairly, in all material respects, the financial position of the Mopani District Municipality as at 30 June 2020, and its financial performance and cash flows for the year then ended in accordance with Standards of General Recognised Accounting Practice (Standards of GRAP), Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2019 (Act No. 16 of 2019) (DoRA).

### Basis for qualified opinion

#### Property, plant and equipment

3. The municipality did not recognise all items of property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment*. Completed infrastructure assets available for use amounting to R66 882 153 (2019: R40 464 254) were incorrectly classified as work-in-progress. Consequently, work in progress stated at R1 646 544 714 (2019: R1 387 999 417) in note 3 to financial statements was overstated by R66 882 153 (2019: R40 464 254) and completed infrastructure assets understated by the same amount. Additionally, there was an impact on the surplus for the period and on the accumulated surplus.
4. I identified infrastructure assets amounting to R26 226 475 that were recognised at fair value in the absence of actual cost information. These assets were previously omitted from the accounting records. I was unable to obtain sufficient appropriate evidence for the valuation of these assets as I was not provided with the assumptions used to determine the fair value. I was unable to test the fair value by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to infrastructure assets stated at R3 932 024 850 (2019: R4 044 402 322) in note 3 to the financial statements.

## Ba-Phalaborwa local municipality's receivables

5. During 2019, I identified journal entries amounting to R42 101 459 that were recorded against the Ba-Phalaborwa local municipality's receivables in the accounting records. The journals processed were not adequately supported by the underlying records. 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 receivables for the current period.
6. The municipality did not establish adequate internal controls to reconcile its receivables. I have identified an unexplained difference of R126 994 180 on the Ba-Phalaborwa local municipality's receivables between the district's records and Ba-Phalaborwa local municipality's records. I was unable to audit the difference by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the Ba-Phalaborwa local municipality's receivables stated at R296 041 711 (2019: R258 580 460) in note 7 to the financial statements.

## Value added tax (VAT)

7. The municipality did not implement adequate internal control systems to reconcile its year-end VAT receivable balance amounting to R55 065 203 (2019: R80 809 661). I identified a difference of R94 268 062 (2019: R76 411 691) between the amount as disclosed in note 7 to the financial statements and the underlying records. Consequently, VAT receivable stated at R55 065 203 (2019: R80 809 661) is understated by R94 268 062 (2019: R76 411 691). I was unable to determine the effect of this understatement on other account balances and classes of transactions as it was impracticable to do so.
8. In addition, I was unable to obtain sufficient appropriate evidence for journals processed against the VAT receivable in the accounting records. The municipality did not provide the journals amounting to R81 933 326. I was unable to audit the journals by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to VAT receivable stated at R55 065 203 in note 7 to the financial statements.

## Service Charges

9. The municipality recognised revenue contrary to the requirements of GRAP 9, *Revenue from exchange transactions*. GRAP 9 requires that revenue be recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. The municipality recognised revenue for sale of water amounting to R50 793 979 at year end for customers that were not billed during the period. The revenue was immediately impaired as management assessed the probability of an inflow of economic benefits as low. Consequently, service charges stated at R254 636 679 in note 14 to the financial statements was overstated by R50 793 979.

## Inventories

10. I was unable to obtain sufficient appropriate audit evidence for inventories amounting to R14 205 188 due to the status of the accounting records. In terms of the municipality's accounting policy, the cost of inventories is assigned using the weighted average cost formula. The municipality did not have adequate systems of internal control to determine the

weighted average cost of inventories at year end. I could not confirm the value of inventories by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to inventories stated at R14 324 723 as per note 6 in the financial statements.

### Current liabilities

11. Current liabilities were materially misstated by R13 482 612 due to the cumulative effect of individually immaterial uncorrected misstatements in current liabilities:

- Trade creditors at local municipalities stated at R1 314 640 was understated by R9 485 502
- Retentions stated at R81 717 668 was understated by R1 405 971
- Greater Giyani local municipality's payables stated at R20 953 844 was understated by R578 801
- Other payables stated at R5 286 608 was understated by R1 894 557.

In addition, I was unable to obtain sufficient appropriate audit evidence to confirm current liabilities by alternative means:

- Other payables of R5 286 608 as included in the disclosed balance of payables from exchange transactions of R1 693 364 547
- Unspent conditional grants of R5 741 921 as included in the disclosed balance of R174 188 026.

### Material losses

12. I was unable to obtain sufficient appropriate evidence for water losses stated at R62 026 428 (2019: R100 615 985) due to weaknesses in the systems implemented to identify losses. There were no adequate systems in place to determine water losses that occurred during distribution. I was unable to verify the water distribution losses by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the distribution losses for the current and prior year as disclosed in 34 to the financial statements.

### Commitments

13. The municipality did not have adequate systems in place for accounting for capital commitments. I identified a number of contracts which were still effective as at 30 June 2020 that were not disclosed as commitments in the financial statements. I have further identified differences between commitments as per the commitments register and the underlying records. Consequently, commitments stated at R474 513 127 in note 27 to the financial statements (2019: R170 278 287) is understated by R131 696 896.

## Context for the opinion

14. 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.
15. 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.
16. 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/ financial sustainability

17. I draw attention to the matter below. My opinion is not modified in respect of this matter.
18. I draw attention to note 30 to the financial statements, which indicated that the municipality's current liabilities exceeded its current assets by R1 146 395 168 as stated in note 30. Furthermore, the municipality is experiencing challenges of collecting own revenue from water and sanitation. These events or conditions, along with other matters as set forth in note 30, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

## Emphasis of matters

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

## Restatement of corresponding figures

20. As disclosed in note 42 to the financial statements, some corresponding figures for 30 June 2019 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2020.

## Uncertainty relating to the future outcome of exceptional litigation

21. With reference to note 28 to the financial statements, the municipality is currently involved in litigation with various third parties. The ultimate outcome of these matters cannot presently be determined and no provision for any liability that may result was made in the financial statements.

## Events after the reporting date

22. I draw attention to note 44 in the financial statements, which deals with subsequent events and specifically possible effects of the implications of covid-19 on the municipality's future prospects, performance and cash flows. My opinion is not modified in respect of this matter.

## **Other matters**

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

### **Unaudited supplementary schedules**

24. 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**

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

## **Responsibilities of the accounting officer for the financial statements**

26. 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 controls 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.
27. 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**

28. 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.
29. 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**

- 30. 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.
- 31. 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/measures 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.
- 32. 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 2020:

| Development priorities                        | Pages in the annual performance report |
|-----------------------------------------------|----------------------------------------|
| Development priority – Basic service delivery | x – x                                  |

- 33. 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.
- 34. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

**Development priority – Basic service delivery**

**Number of households with access to water**

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

63 715 households provided with access to water reported against a target of 16 000 in the annual performance report.

### **Number of quarterly MIG reports submitted to the department of Cooperative Governance Human Settlements and Traditional Affairs (CoGHSTA)**

36. I was unable to obtain sufficient appropriate audit evidence for the achievement of one quarterly Municipal Infrastructure Grant (MIG) report submitted to CoGHSTA reported against a target of four quarterly reports 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.

### **Number of households with access to sanitation**

37. The achievement of 5 172 households with access to sanitation was reported against a target of 16 000 in the annual performance report. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of 5 819.

### **Other matter**

38. I draw attention to the matters below.

### **Achievement of planned targets**

39. Refer to the annual performance report on pages ... to ... 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 35 to 37 of this report.

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

### **Introduction and scope**

40. 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.

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

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

42. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.

Material misstatements of non-current assets, current assets, liabilities 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 and/ or supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

### **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 ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the payment of funds, as required by section 65(2)(a) of the MFMA.
45. Reasonable steps were not taken to prevent irregular expenditure amounting to R270 295 172, as disclosed in note 33 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by non-compliance with supply chain management (SCM) laws and regulations.
46. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R62 770 140, as disclosed in note 32 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by penalties due to non-payment of bulk water purchases from the department of water and sanitation.
47. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R191 195 254, as disclosed in note 31 to the financial statements in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed unauthorised expenditure was caused by exceeding the approved budget in several votes.

### **Procurement and contract management**

48. Some of the goods and services with a transaction value 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.
49. The preference point system was not applied to some of the procurement of goods and services above R30 000 as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act, 2000 (Act No 5 of 2000).
50. Awards were made to providers who were in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).
51. 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.

### **Revenue management**

52. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.



## Consequence management

53. Some of the irregular 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.

## Strategic planning and performance management

54. The performance management system and related controls were inadequate as it did not describe how the performance monitoring, measurement and review processes should be conducted, organised and managed, as required by municipal planning and performance management regulation 7(1).

## Asset management

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

## Other information

56. 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.
57. 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.
58. 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.
59. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

## Internal control deficiencies

60. 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.

61. The accounting officer and management did not exercise adequate oversight responsibility regarding financial and performance reporting and compliance with laws and regulations. Leadership did not exercise effective monitoring over the implementation of the audit action plan resulting in recurring prior year issues.
62. Consequence management was not adequately implemented to deter non-performance and promote clean administration.
63. The basic accounting principles of daily and monthly accounting and reconciling of transactions was not adequately implemented and monitored.
64. The financial statements and the annual performance report are not reviewed for accuracy and completeness by the accounting officer.
65. The accounting officer does not effectively manage and monitor the water and sanitation functions delegated to the local municipalities.
66. Finance officials lack necessary skills and competencies to fulfil their duties, resulting in the excessive use of consultants.
67. Internal controls for monitoring compliance with laws and regulations are ineffective as they do not detect and prevent instances of non-compliance with applicable laws and regulations.
68. The internal control monitoring mechanisms of the municipality are not functioning optimally, as many control weaknesses are only discovered during the audit of the financial statements and performance information.

## Other reports

69. 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.
70. The Special Investigating Unit is investigating the procurement of goods and services that was in contravention of supply chain management laws and regulations and other matters as per the proclamations issued. The investigation was still in progress at year end.
71. The municipality appointed an external firm to probe issues of unauthorised, irregular, fruitless and wasteful expenditure contained in the investigation report of the Municipal Public Accounts Committee (MPAC). The firm was further engaged to probe standing time incurred on certain projects. The investigation was concluded during the year and the accounting officer is in the process of implementing the recommendations made therein.

Auditor-General

Polokwane

17 May 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 development priorities and on the [type of auditee]’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 Mopani District Municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease operating as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also 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, the actions taken to eliminate threats or the safeguards applied.

