



## **Report of the auditor-general to the North West provincial legislature and the council on the Bojanala Platinum District Municipality**

### **Report on the audit of the financial statements**

#### **Qualified opinion**

1. I have audited the financial statements of the Bojanala Platinum District Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2020, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the 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 Bojanala Platinum District Municipality as at 30 June 2020, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the 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. I was unable to obtain sufficient appropriate audit evidence for the useful lives of buildings, plant and machinery, motor vehicles, office equipment and computer equipment due to the status of the accounting records and lack of supporting evidence for the basis or assumptions used to determine the useful lives. In addition, I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for property plant and equipment. I was unable to confirm these assets alternative means. Consequently, I was unable to determine whether any adjustments relating to property, plant and equipment of R43 878 661 (2019: R55 555 287) as disclosed in note 2 or the depreciation and amortisation expense of R9 642 841 (2019: R9 174 455) as disclosed in note 17 to the financial statements were necessary.

##### **Payables from exchange transactions**

4. I was unable to obtain sufficient appropriate audit evidence for trade payables included in payables from exchange transactions as the municipality did not have an adequate system of internal control to account for these payables and did not keep proper records. I was unable to confirm these payables by alternative means. Consequently, I was unable to determine whether any further adjustment relating to trade payables of R70 152 625 (2019: R52 550 188)

included in payables from exchange transactions as disclosed in note 11 to the financial statements was necessary.

### Contracted services

5. I was unable to obtain sufficient appropriate audit evidence for contracted services as adequate supporting documentation that the goods and services relating to these contracted services were received could not be provided by the municipality. I was unable to confirm the receipt of these contracted services by alternative means. Consequently, I was unable to determine whether any adjustment to the contracted services of R29 473 366 (2019: R141 917 932) as disclosed in note 20 to the financial statements was required.

### Operational costs

6. The municipality incorrectly included expenses relating to contracted services of R11 530 577 as operational costs, resulting in operational costs being overstated and contracted services being understated by R11 530 577. In addition, the municipality incorrectly recognised transactions in the current year where goods and services were only received after year end, resulting in operational costs and trade payables being overstated by R2 047 420. Furthermore, I was unable to obtain sufficient appropriate audit evidence for operational costs as adequate supporting documentation that goods and services relating to these operational costs were received could not be provided by the municipality. I was unable to confirm the receipt of these operational costs by alternative means. Consequently, I was unable to determine whether any further adjustment to the operational costs of R30 091 562 (2019: R70 359 197) as disclosed in note 21 to the financial statements was necessary.

### Consumables

7. During 2019, I was unable to obtain sufficient appropriate audit evidence for consumables. I was unable to confirm these consumables by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to consumables stated at R3 770 316 in the statement of financial performance. 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 consumables for the current period.

### Revaluation reserve

8. I was unable to obtain sufficient appropriate audit evidence for the revaluation reserve due to the status of the accounting records. I was unable to confirm the revaluation reserve by alternative means. Consequently, I was unable to determine whether any adjustment relating to the revaluation reserve of R12 127 554 (2019: R12 127 554) included in the statement of financial position and statement of changes in net assets was necessary.

### Fruitless and wasteful expenditure

9. I was unable to obtain sufficient appropriate audit evidence for fruitless and wasteful expenditure as the municipality did not have an adequate system of internal control to disclose fruitless and wasteful expenditure and did not keep proper records. I was unable to confirm fruitless and wasteful expenditure by alternative means. Consequently, I was unable to determine whether any adjustment relating to the fruitless and wasteful expenditure of R7 102 524 (2019: R5 998 787) as disclosed in note 31 to the financial statements was necessary.

### Irregular expenditure

10. I was unable to obtain sufficient appropriate audit evidence for irregular expenditure as the municipality did not have an adequate system of internal control to disclose irregular expenditure and did not keep proper records. Consequently, I was unable to determine



whether any adjustment relating to the irregular expenditure of R525 483 406 (2019: R472 347 412) as disclosed in note 32 to the financial statements was necessary.

### **Context for the opinion**

11. 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.
12. 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.
13. 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**

14. I draw attention to the matter below. My opinion is not modified in respect of this matter.
15. As disclosed in note 29 to the financial statements, the municipality had an accumulated deficit of R81 707 303 (2019: R132 323 416) and the municipality's total liabilities exceeded its total assets by R69 579 749 (2019: R120 195 862). As stated in note 29, these events or conditions, along with other matters 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**

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

### **Unauthorised expenditure**

17. As disclosed in note 30 to the financial statements, unauthorised expenditure of R27 532 196 was incurred in the current year and the unauthorised expenditure of R273 965 811 in respect of prior years have not yet been dealt with in accordance with section 32 of the MFMA.

### **Restatement of corresponding figures**

18. As disclosed in note 27 to the financial statements, the corresponding figures for 30 June 2019 have been restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2020.

### **Other matter**

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

### **Unaudited disclosure notes**

20. 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.

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

21. 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.

22. In preparing the financial statements, the accounting officer is responsible for assessing the Bojanala platinum district municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or there is no realistic alternative but to do so.

### **Auditor-general's responsibilities for the audit of the financial statements**

23. 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.
24. 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**

25. 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 material findings on the reported performance information against predetermined objectives for selected key performance areas presented in the annual performance report. I was engaged to perform procedures to raise findings but not to gather evidence to express assurance.
26. I was engaged to evaluate 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 2020:

<b>Key performance area</b>	<b>Pages in the annual performance report</b>
KPA 4: Basic service delivery and infrastructure development	x – x

27. The material findings in respect of the usefulness and reliability of the selected key performance area are as follows:

### **KPA 4: Basic service delivery and infrastructure development**

#### **Number of Air Quality Management Programmes implemented in Bojanala Region**

28. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined source information and method of collection or that related systems and processes were established to enable consistent measurement and reliable reporting of the actual achievement for the indicator. This was due to a lack of 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 "Not Achieved - 0 Air Quality Management Programmes implemented in Bojanala Region" reported

against target "2 Air Quality Management Programmes implemented Bojanala Region by June 2020" in the annual performance report.

## **Other matter**

29. I draw attention to the matter below.

### **Achievement of planned targets**

30. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph 28 of this report.

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

### **Introduction and scope**

31. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
32. The material findings on compliance with specific matters in key legislation are as follows:

### **Financial statements**

33. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.
34. The financial statements were not submitted to the Auditor-General, for auditing, within four months after the end of the financial year, as required by section 126(1)(a) of the MFMA.

### **Strategic planning and performance management**

35. Key performance indicators (KPIs) were not set for each of the development priorities and objectives, as required by section 41(1)(a) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and regulation 9(1)(a) of the Municipal planning and performance management regulations.
36. No KPIs were set in respect of the provision of basic water and sanitation services, as required by section 43(2) of the MSA and regulation 10(a) of the Municipal planning and performance management regulations.
37. A performance management system was not adopted, as required by regulation 8 of the Municipal planning and performance management regulations.

### **Expenditure management**

38. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
39. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualified opinion paragraph.



40. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The majority of the disclosed unauthorised expenditure was caused by overspending on certain votes within the budget.
41. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the fruitless and wasteful expenditure could not be quantified as indicated in the basis for qualified opinion paragraph.

### Conditional grants

42. Performance in respect of programmes funded by the Rural Assets Management Grant was not evaluated within two months after the end of the financial year, as required by section 11(6)(b) of the DoRA.

### Consequence management

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

### Procurement and contract management

44. Sufficient appropriate audit evidence could not be obtained that all quotations were awarded in accordance with the legislative requirements as information requested was not submitted for audit.
45. 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).
46. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
47. Sufficient appropriate audit evidence could not be obtained that all extensions or modifications to contracts were approved by a properly delegated official, as required by SCM regulation 5.

### Other information

48. 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 as required by the MFMA. The other information does not include the financial statements, the auditor's report thereon and those selected key performance presented in the annual performance report that have been specifically reported on in this auditor's report.
49. 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.
50. 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 area presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
51. 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

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 thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

- Leadership did not adequately exercise oversight and decisive actions were not taken to address risks relating to the achievement of complete and accurate financial reporting and related internal controls. Furthermore, the action plan to address prior year audit findings was not adequate as numerous instances of repeat audit findings were identified which negatively impacts on the assurance level provided by leadership.
- Management failed to implement effective controls to ensure that all information in the financial statements were reliable before submission for audit as basic accounting errors were identified which could have been prevented had reasonable due care been exercised. Finance staff do not fully understand the requirements of the financial reporting framework and sustainable systems and processes were not introduced and implemented during the year for the recording, reconciling and reporting of transactions and balances resulting in an over reliance on consultants. Management could not provide adequate evidence in support of the information presented in the financial statements. Management did not adequately review and monitor compliance with applicable laws and regulations resulting in compliance matters not being addressed.
- Management's non-adherence to policies, procedures laws and regulations relevant to the finance and supply chain management sections resulted in a weak internal control environment that gave rise to suspicious transactions with possible fraud indicators, payments made to suppliers not within 30 days, deviations were not approved and the procurement processes were not always followed to procure goods and services.

*Auditor General*

Potchefstroom

22 July 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 key performance area 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 Bojanala Platinum District Municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

## Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and where applicable, related safeguards.