



Report of the auditor-general to the North West provincial legislature and the council on the Dr Ruth Segomotsi Mompati District Municipality

Report on the audit of the financial statements

Disclaimer of opinion

1. I was engaged to audit the financial statements of the Dr Ruth Segomotsi Mompati 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, and cash flow statement and the statement 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. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence for work in progress included in property, plant and equipment in the current and previous years due to the status of the accounting records. I was unable to confirm the balance of work in progress by alternative means. In addition, work in progress was overstated by R7 935 323, repairs and maintenance and intangible assets understated by R4 592 195 and R3 343 127 respectively as some expenditure included in additions was not incurred in accordance with GRAP 17, *Property, plant and equipment*. Consequently, I was unable to determine whether any further adjustment to work in progress of R1 318 162 188 (2019: R1 079 051 449) included in property, plant and equipment disclosed in note 4 and retentions of R55 213 809 (2019: R40 262 263) included in payables from exchange transactions as disclosed in note 15 to the financial statements was necessary.
4. During 2019, I was unable to obtain sufficient appropriate audit evidence for infrastructure due to non-submission of information, material differences between the financial statements and accounting records and the unexplained write off of infrastructure assets due to inadequate asset management controls. I was unable to determine whether any adjustment to infrastructure of R1 697 566 816 and the depreciation expense of R66 283 602 was necessary. My audit opinion on the financial statements for the period ended 30 June 2019 was modified accordingly. I was still unable to confirm this infrastructure balance by alternative means. Consequently, my opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures of infrastructure and depreciation expense.

5. In addition, the 2019 work in progress transfers were recorded at incorrect amounts and some projects completed in earlier years were only transferred out of work in progress in the 2019 financial year. This resulted in an overstatement of the 2019 infrastructure balance by R13 682 292 and an understatement of work in progress by the same amount. Furthermore, the carrying amount of the 2018 opening balance adjustment was recorded at incorrect amounts, resulting in an overstatement of the 2019 opening balance by R4 043 119.
6. The municipality incorrectly accounted for depreciation due to the use of incorrect useful lives when calculating the depreciation expense. This has resulted in an overstatement of motor vehicles and infrastructure included in property, plant and equipment disclosed in note 4 of the financial statements, by R9 616 582 and R3 413 949 respectively. The related depreciation and amortisation expense included in note 26 is overstated with R13 030 531. There is a resultant impact on the surplus reported for the year.

VAT receivable

7. During 2019, I was unable to obtain sufficient appropriate audit evidence for the VAT receivable due to the status of the accounting records. I was unable to confirm the VAT receivable by alternative means. In addition, the VAT receivable balance was overstated by R42 284 159 due to the incorrect recording of the balance in the financial statements. Consequently, I was unable to determine whether any adjustment to the VAT receivable of R91 873 065 as disclosed in note 9 to the financial statements was necessary. My audit opinion on the financial statements for the period ended 30 June 2019 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

Cash and cash equivalents

8. Section 125(2)(a) of the MFMA requires that the municipality disclose the year-end balances of each bank account held by the municipality. The municipality incorrectly disclosed the year-end bank statement balance of the VBS Mutual Bank investment as R0 for the current and previous year in note 10 to the financial statements. Although council impaired the investment of R150 000 000 during 2018 the municipality omitted to disclose the bank balance or the information relevant to the impairment in the notes to the financial statements as required.

Payables from exchange transactions

9. The municipality did not correctly account for trade payables as required by GRAP 1, *Presentation of the financial statements*. This was due to the recording of some supplier balances at incorrect amounts. Furthermore, expenditure on a completed capital project which was handed over to community members as beneficiaries was incorrectly accounted for as a contingent liability. The expenditure should have been accounted for as a trade payable because the arbitration board had ruled that the municipality should pay the supplier until such time that the board's ruling is overturned by a court of law. As a result, trade payables included in payables from exchange transactions was understated by R6 092 641 (2019: R55 889 607), transfers and subsidies understated by R34 061 709, VAT receivable understated by R3 901 758 and contingent liabilities overstated by R39 000 000.
10. I was unable to obtain sufficient appropriate audit evidence for trade payables due to the inclusion of unexplained negative supplier balances in the listing and non-submission of information relating to the prior year balance. I was unable to confirm the trade payables balance by alternative means. Consequently, I was unable to determine whether any adjustments to trade payables included in payables from exchange transactions of R534 571 956 (2019: R471 852 811) as disclosed in note 15 to the financial statements was necessary.



Unspent conditional grants and receipts

11. The municipality incorrectly recognised unspent conditional grants which should have been classified as payables due to the roll-over of the previous year's unspent funds not being approved and having to be repaid to National Treasury. As a result, the unspent conditional grants and receipts was overstated by R42 833 457 (2019: R35 800 571) and payables from non-exchange transactions was understated by the same amount.

Provision of retail water services

12. I was unable to obtain sufficient appropriate audit evidence that revenue, expenditure and receivables for the current and the prior year relating to the provision of retail water services have been correctly accounted for by the district municipality as some of the service delivery agreements entered into between the district municipality as water service authority and the local municipalities as water service providers has expired. In terms of section 22 of the Water Services Act, 1997 (Act No. 108 of 1997), no person may operate as a water service provider without the approval of the water service authority. I was unable to confirm by alternative means that the local municipalities was authorised to operate as water service providers. Consequently, I was unable to determine whether any adjustments to revenue, expenditure, receivables or any other items relating to the provision of retail water services by the local municipalities on behalf of the district municipality were necessary in the financial statements.

Government grants and subsidies

13. I was unable to obtain sufficient appropriate audit evidence that all work in progress invoices relating to projects funded by various conditional grants were recorded as revenue when the conditions of those grants were met as required due to the status of the accounting records. I was unable to confirm the revenue from government grants and subsidies and the unspent balances by alternative means. In addition, the municipality incorrectly included transactions relating to the following year in government grants and subsidies contrary to the requirement of GRAP 1, *Presentation of the financial statements*. This resulted in revenue from government grants and subsidies being overstated by R28 007 090 and unspent conditional grants and receipts being understated by the same amount. Consequently, I was unable to determine whether any further adjustments to unspent conditional grants and receipts of R42 833 457 (2019: R35 800 571) as disclosed in note 12 and revenue from government grants and subsidies of R696 969 638 (2019: R708 434 648) as disclosed in note 22 to the financial statements were necessary.

Bulk purchases

14. The municipality incorrectly classified operation and maintenance related expenses as bulk purchases contrary to the requirements of GRAP 1, *Presentation of the financial statements* due to the status of the accounting records. Consequently, bulk purchases as disclosed in note 29 was overstated by R154 052 803 and general expenses as disclosed in note 31 to the financial statements was understated by the same amount.
15. During 2019, I was unable to obtain sufficient appropriate audit evidence for bulk purchases due to non-submission of information. I was unable to determine whether any adjustment to bulk purchases of R232 196 995 as disclosed in note 29 to the financial statements was necessary. My audit opinion on the financial statements for the period ended 30 June 2019 was modified accordingly. I was still unable to confirm these bulk purchases or restatements made to this balance in the current year by alternate means. Consequently, my opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

General expenses

16. The municipality did not account for all general expenditure incurred in the current financial period as required by GRAP 1, *Presentation of financial statements*. Expenditure incurred amounting to R6 442 901 was not included in general expenses as disclosed in note 31 to the financial statements. Trade payables from exchange transactions as disclosed in note 15 and VAT receivable as disclosed in note 9 was understated with R7 409 336 and R966 435 respectively.

Contracted services

17. During 2019, the municipality incorrectly classified transfers and subsidies related expenses as contracted services contrary to the requirements of GRAP 1, *Presentation of the financial statements* due to the status of the accounting records. Consequently, contracted services was overstated by R27 567 277 and transfers and subsidies was understated by the same amount. I was also unable to obtain sufficient appropriate audit evidence relating to the prior period error adjustment for contracted services due to non-submission of information. I was unable to confirm the contracted services by alternative means. Consequently, I was unable to determine whether any further adjustments to contracted services of R120 719 122 as disclosed in the statement of financial performance was necessary. 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 is also modified because of the possible effect of this matter on the comparability of the current period figures and the corresponding figures.

Accumulated surplus

18. I was unable to obtain sufficient appropriate audit evidence for the restatements made to the accumulated surplus due to the status of the accounting records. I was unable to confirm the restatements to the accumulated surplus by alternative means. Consequently, I was unable to determine whether any adjustment relating to the accumulated surplus of R2 530 310 330 (2019: R2 403 534 858) as presented in the statement of financial position and the statement of changes in net assets was necessary.

Cash flows from operating activities

19. The municipality did not correctly prepare and disclose the net cash flows from operating activities as required GRAP 2, *Cash flow statements*. This was due to multiple errors in determining cash flows from operating activities. I was not able to determine the full extent of the errors in the net cash flows from operating activities of R299 850 923 included in the cash flow statement and as disclosed in note 34 to the financial statements as it was impracticable to do so.

Statement of comparison of budget and actual amounts

20. The municipality did not include appropriate explanations for some material variances in the statement of comparison of budget and actual amounts as required by GRAP 24, *Presentation of budget information in financial statements* as the explanation for material differences between the budgeted amounts and actual amounts do not provide a fair presentation which will assist users in understanding the reasons for material departures from the approved budget. I was unable to determine the full extent of the omitted disclosures as it was impracticable to do so.

Commitments

21. The municipality did not correctly account for commitments as required by GRAP 1, *Presentation of the financial statements*. This was due to the fact that expenditure used in calculating the commitments balance was not correct. Consequently, commitments was overstated by R385 970 237 (2019: R260 952 919).



22. In addition, I was unable to obtain sufficient appropriate audit evidence for the commitments balance due to the effect of the material limitations on work in progress and material non-compliance on contract management relating to the extension of contracts. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustment relating to the commitments of R799 309 846 (2019: R922 439 001) as disclosed in note 36 was necessary.

Prior period errors and adjustments

23. The municipality did not disclose all adjustments made to correct prior period errors as required by GRAP 3, *Accounting policies, estimates and errors*. The nature and the amount of the correction for each financial statement item affected and the amount of the correction at the beginning of the earliest prior period were not disclosed. I was unable to determine the full extent and impact of the omitted disclosed in notes 39 and 40 to the financial statements as it was impracticable to do so.
24. I was unable to obtain sufficient appropriate audit evidence for the prior-year adjustments disclosed in notes 39 and 40 as the supporting information was not provided. I was unable to confirm the disclosures of these adjustments by alternative means. Consequently, I was unable to determine whether any adjustment to the prior year adjustments as disclosed in notes 39 and 40 to the financial statements was necessary.

Unauthorised expenditure

25. Section 125 of the MFMA requires the disclosure of unauthorised expenditure incurred. The municipality incurred expenditure of money appropriated for a specific purpose, other than for that specific purpose and also incurred COVID-19 related expenditure for which an adjustment budget was not approved by council which was not included in unauthorised expenditure disclosed. Consequently, unauthorised expenditure as disclosed in note 44 to the financial statements was understated by R15 951 427.

Irregular expenditure

26. Section 125 of the MFMA requires the disclosure of irregular expenditure incurred. The municipality made payments in contravention with the supply chain management requirements which were not included in irregular expenditure disclosed. In addition, the irregular expenditure disclosed included VAT, resulting in an overstatement of R49 192 783. As the municipality did not quantify the full extent of the irregular expenditure, it was impracticable to determine the resultant misstatement of irregular expenditure as disclosed in note 46 to the financial statements.

Deviation from supply chain management regulations

27. SCM regulation 36(2) requires the disclosure of reasons for deviation from supply chain management regulations. The municipality included descriptions and amounts for deviations which were not deviations from the supply chain management regulations and should have been excluded from the disclosure in note 48 to the financial statements.

Going concern

28. The municipality incorrectly concluded in note 42 to the financial statements on the uncertainty to continue as a going concern. The municipality has not disclosed the fact that the municipality's current liabilities exceeded its current assets by R446 736 838. In addition, the municipality received a letter from National Treasury that their equitable share tranche will be withheld should the municipality not adopt a funded budget. National Treasury is also deducting installments of the VBS investment that was impaired by the municipality from the municipality's equitable share. These events or conditions, along with other matters as set forth in note 42, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.



Preparation of the financial statements

29. I was unable to obtain sufficient appropriate audit evidence that the accounting officer has fulfilled his responsibility for the preparation and fair presentation of the financial statements in accordance with the standards of GRAP, as written representations in this respect were not provided. I was also unable to obtain written representations from the accounting officer that I had been provided with all relevant information and access as agreed in terms of the audit engagement, and that all transactions had been recorded and were reflected in the financial statements. I could not determine the effect of the lack of such representations on the financial position of the municipality at 30 June 2020 or the financial performance and cash flows for the year then ended.

Responsibilities of the accounting officer for the financial statements

30. 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.
31. In preparing the financial statements, the accounting officer is responsible for assessing the Dr Ruth Segomotsi Mompati 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

32. 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.
33. 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

34. 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 area presented in the annual performance report. I was engaged to perform procedures to raise findings but not to gather evidence to express assurance.
35. 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:



Key performance area	Pages in the annual performance report
KPA 1 - Service delivery and infrastructure development	x – x

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

KPA 1 – Service delivery and infrastructure development

Number of households provided with access to sanitation through rural sanitation programme by 30 June 2020

37. The reported target of number of 1600 did not agree with the target of 16000 as approved in the annual performance report. In addition, I was unable to obtain sufficient appropriate audit evidence for the reported achievement of 2090 for the indicator. This was due to a lack of an adequate record keeping system that records the number of households provided with access to water as reported in the annual performance report. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustment to the reported achievement of 2090 was necessary. Furthermore, the measures taken to improve performance against the planned target was not reported in the annual performance report.

Number of households provided with access to water through rural water supply programme by 30 June 2020

38. I was unable to obtain sufficient appropriate audit evidence that systems and processes were established to enable consistent measurement and reliable reporting of performance against the predetermined indicator definitions. This was due to insufficient measurement definitions and processes. I was unable to validate the existence of systems and processes by alternative means. As a result I was unable to audit the reliability of the reported achievement of 2558 against the planned target of 2500. Furthermore, the measures taken to improve performance against the planned target was not reported in the annual performance report.

Other matter

39. I draw attention to the matter below.

Achievement of planned targets

40. Refer to the annual performance report on pages 168 to 190 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 37 to 38 of this report.

Report on audit of compliance with legislation

Introduction and scope

41. 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.

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



Financial statements

43. 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 identified by the auditors in the submitted financial statements were not adequately corrected, which resulted in the financial statements receiving a disclaimer of opinion.

Expenditure management

44. Money owed by the municipality was not always paid within 30 days as required by section 65(2)(e) of the MFMA.
45. Payments were made from the municipality's bank accounts without the approval of the accounting officer, the chief financial officer or a properly authorised official as required by section 11(1) of the MFMA.
46. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal, payment of funds, as required by section 65(2)(a) of the MFMA.
47. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, accounted for creditors and accounted for payments made, as required by section 65(2)(b) of the MFMA.
48. 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 non-compliance with SCM regulations. Irregular expenditure amounting to R155 329 453 was incurred on the key projects for the Vryburg New Waste Water Treatment Works, Greater Taung: Bulk Water Supply Upgrading and the Rural Sanitation Programme - Kagisano Molopo and Naledi.
49. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R834 814 as disclosed in note 45 to the 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 incurred on overdue accounts.
50. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed unauthorised expenditure was caused by overspending on the budget.

Consequence management

51. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
52. Irregular, fruitless and wasteful 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.

Conditional grants

53. Performance in respect of programmes funded by the Municipal Infrastructure Grant, Regional Bulk Infrastructure Grant and Water Services Infrastructure Grant was not evaluated within two months after the end of the financial year, as required by section 12(5) of the DoRA.

Revenue management

54. An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA.



55. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.
56. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Asset management

57. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.
58. All investments were not made in accordance with the requirements of the investment policy as required by Municipal Investment Regulation 3(3).
59. Funds were invested in a mutual bank, in contravention of Municipal Investment Regulation 6.

Procurement and contract management

60. 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.
61. 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.
62. 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). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1). Similar non-compliance was also reported in the prior year.
63. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding, as required by SCM regulations 21(b) and 28(1)(a(i) and Preferential Procurement Regulations. Similar non-compliance was also reported in the prior year.
64. Competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2).
65. Goods or services procured under contracts secured by other organs of state were not procured in accordance with SCM regulation 32 as there were no demonstrable benefits and discounts of participating in the contract and the prices paid was not the same as the original contract.
66. Some of the contracts were not awarded in an economical manner and the prices of the goods or services were not reasonable as required by MFMA sec 62(1)(a) and MFMA sec 95(a).
67. The preference point system was not applied for 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.
68. Some of the bid documentation for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the regulation 8(2) of the 2017 Preferential Procurement Regulations. Similar non-compliance was also reported in the prior year.
69. 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. Similar non-compliance was also reported in the prior year.
70. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the

prior year. This non-compliance was identified in the procurement processes for the Rural Sanitation programme (2020-2023).

71. 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. Similar non-compliance was also reported in the prior year.

Internal control deficiencies

72. 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 disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
- The financial statements and annual performance report was not properly reviewed before submission for audit and contributed to the material findings identified during the audit. The municipality experienced management instability during the year with regards to the key position of chief financial officer. This resulted in inadequate oversight regarding financial reporting and compliance with laws and regulations.
 - There is an overreliance on the work of consultants without adequate transfer of skills to ensure that officials within the municipality appointed in a specific position performs the function within that position.
 - The financial statements and the performance report was not submitted on time to the audit committee for review. The financial statements was not complete when submitted to the audit committee which made it difficult for the audit committee to perform a detailed review thereon. The implementation of action plans to address prior year audit findings was not adequately monitored by the audit committee. The audit committee also did not adequately monitor compliance with applicable legislation and regulations as no evidence was obtained that the audit committee reviewed the SCM function of the municipality.

Material irregularities

73. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit.

Other material irregularities

74. I identified material irregularities during the audit and notified the accounting officer thereof as required by Material Irregularity Regulation 3(2). By the date of this auditor's report, the responses of the accounting officer were not yet due. These material irregularities will be included in the next year's auditor's report.

Auditor General

Potchefstroom

23 March 2021



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence