

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

## Report on the audit of the separate financial statements

### Qualified opinion

1. I have audited the separate financial statements of Sekhukhune 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, 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 separate financial statements present fairly, in all material respects, the financial position of the Sekhukhune District Municipality as at 30 June 2020, and its financial performance and cash flows for the year then ended in accordance with 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, 2019 (Act No.16 of 2019) (DoRA).

### Basis for qualified opinion

#### Property, plant and equipment

3. During 2019, the municipality did not accurately disclose assets under construction at the reporting period in accordance with GRAP 17, *Property, plant and equipment*. The work in progress recognised at year end was not adequately supported by source documents. The effect on the financial statements was that property, plant and equipment as disclosed in note 3 to the financial statements was overstated by R45 814 924. 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 effect of this matter on the opening balance of work-in-progress for the current period.
4. The municipality did not accurately disclose assets under construction at the reporting period in accordance with GRAP17, *Property, plant and equipment*. The work in progress recognised in the opening balance was not all accounted for. The effect on the financial statements was that property, plant and equipment as disclosed in note 3 to the financial statements was understated by R298 216 707.
5. Work-in-progress amounting to R231 073 257 included in note 3 to the financial statements was incorrectly classified as work-in-progress, while it was available for use in terms of GRAP 17, *Property, plant and equipment*. This resulted in the overstatement of work-in-progress and

understatement of completed assets by R231 073 257. Additionally, there was a resultant impact on surplus for the year and accumulated surplus.

6. The municipality did not accurately disclose impairment loss for assets under construction, as differences were noted between the amount disclosed and the accounting records. This resulted in understatement of work-in-progress by R20 671 993.43.
7. The municipality did not adequately review the useful lives of property, plant and equipment at the reporting date in accordance with GRAP 17, *Property, plant and equipment*. As a result, assets with an unquantified amount had a zero net carrying amount while still being in use. I was unable to determine the impact on the net carrying amount of assets as it was impracticable to do so.

### Repairs and maintenance

8. During 2019, the municipality did not capitalise costs which are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management in accordance with GRAP 17, *Property, plant and equipment*. The municipality expensed the costs of assets constructed during the year which were supposed to be capitalised. Consequently, repairs and maintenance is overstated and property, plant and equipment is understated by R43 030 269. Consequently, surplus for the year was understated by the same amount. 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 repairs and maintenance for the current period.

### General expenses

9. During 2019, expenditure relating to the 2018 financial year was accounted for in the 2019 financial year contrary to GRAP, *Conceptual Framework*. General expenses were overstated by R28 268 106. Consequently, surplus for the prior year was understated by the same amount. 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 general expenditure for the current period.

### Prior year adjustments

10. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figures. As described in note 37 to the financial statements, the restatements were made to rectify previous year misstatements, but the restatements could not be substantiated by supporting audit evidence. I was unable to confirm the restatements by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the corresponding figures stated in the financial statements

### Inventory

11. I was unable to obtain sufficient appropriate audit evidence for inventory held at sub-stores. Adequate internal controls were not in place to account for inventory issued and requisitions in the financial records. I was unable to confirm the inventory by alternative means.

Consequently, I was unable to determine whether any adjustment was necessary to inventory stated at R29 435 823.

### **Bulk purchases**

12. Included in bulk purchases of R108 870 005 is an unquantifiable amount relating to the cost of inventory on hand at sub-stores. Adequate internal controls were not in place to account for inventory issued to sub-stores. I was unable to confirm the overstatement of bulk purchases by alternative means. Consequently, I was unable to determine whether any adjustments to bulk purchases stated at R108 870 005 were necessary.

### **Receivables from non-exchange transaction**

13. I was unable to obtain sufficient appropriate audit evidence for sundry debtors, as supporting evidence was not provided for certain sundry debtors. I was unable to confirm the sundry debtors by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to sundry debtors stated at R14 735 407 in note 7 to the financial statements.

### **Employee related costs**

14. Included in employee related cost is R23 917 368 for allowances. The municipality did not have adequate internal controls to maintain records of employee related cost for allowances. I was unable to obtain sufficient appropriate audit evidence to substantiate the allowances in note 21 to the financial statements. Consequently, I was unable to determine whether any adjustments to employee related cost stated at R397 644 268.

### **Context for the opinion**

15. 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.
16. I am independent of the municipality in accordance with sections 290 and 291 of 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.
17. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Emphasis of matters**

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

### **Contingent Liabilities**

19. With reference to note 34 to the financial statements, the municipality is a defendant in various legal claims involving individuals and companies. The municipality is opposing these claims.

The ultimate outcome of these matters could not be determined and no provision for any liability that may result was made in the financial statements.

### **Covid-19 disclosure**

20. We draw attention to note 41 in the financial statements, which deals with covid-19 and the possible effects of the future implications of covid-19 on the municipality's ability to collect outstanding debtors. Management has also disclosed how they plan to deal with these events and circumstances. Our opinion is not modified in respect of this matter.

### **Material losses (water distribution)**

21. As disclosed in note 45 to the annual financial statements, material water losses of R51 623 011 (2019: R60 682 242) was incurred.

### **Other matters**

#### **Unaudited supplementary schedules**

22. The supplementary information set out on pages ... to ... does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

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

23. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA 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 separate financial statements that are free from material misstatement, whether due to fraud or error.
24. In preparing the separate 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**

25. 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.
26. 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**

- 27. 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.
- 28. 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.
- 29. 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:

<b>Development priorities</b>	<b>Pages in the annual performance report</b>
Development priority 1 – Basic service delivery	x – x

- 30. 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.
- 31. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

**Development priority 1 – Basic service delivery**

**Reported indicators and targets were not consistent when compared with planned indicators and targets**

**Various indicators**

- 32. The reported indicators as per table below did not agree with the planned indicators as per the approved service delivery implementation plan.

Indicator as per adjusted SDBIP	Indicator as per APR
% of LAB chemical purchased	Number of % of LAB chemical purchased
Number of package plant and Abstraction point refurbished.	Number of package plant refurbished.

**Performance indicators were not well-defined, verifiable and measurable**

**Various indicators**

33. 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 of the indicators listed below. This was due to a lack of measurement definitions and processes. I was unable to confirm that the indicator is well-defined and verifiable by alternative means. As a result, I was unable to audit the reliability of the achievements reported in the annual performance report of the listed indicators.

Indicator as per adjusted Service Delivery and Budget Implementation Plan (SDBIP)	Indicator as per Annual Performance Report (APR)
% of LAB chemical purchased	Number of % of LAB chemical purchased
Number of package plant and abstraction point refurbished.	Number of package plant refurbished.

**Reported achievement did not agree with the evidence provided, i.e. not accurate and complete.**

**Various Indicators**

34. The achievements reported in the annual performance report materially differed from the supporting evidence provided for the indicators listed below:

Indicator	Target	Achievement as per APR	Audited	Difference
Number of Bulk Meters installed	6 Bulk Water Meters installed	6 Bulk Water Meters installed	5 Bulk Water Meters installed	1 Bulk Water Meters installed
Number of kilometres of bulk water supply pipeline constructed	5 Kilometres of bulk water supply pipeline constructed	0 Kilometres of bulk water supply pipeline constructed	0.2 Bulk Water Meters installed	0.2 Bulk Water Meters installed

Number of Kilometres of water reticulation network completed	4 Kilometres of water reticulation network completed	0 Kilometres of water reticulation network completed	3.12 Kilometres of water reticulation network completed	3.12 Bulk Water Meters installed
Number of water supply pipeline and water storage completed	4 Kilometres of water supply pipeline and 1 water storage completed	0 Kilometres of water supply pipeline and one (1) water storage completed	0 Kilometres of water supply pipeline and 0 water storage completed	one (1) water storage completed
Number of Kilometres of reticulation network and standpipes constructed	6.3Km of reticulation network and 29 standpipes completed	0 Km of reticulation network and 0 standpipes completed	6.3Km of reticulation network and 29 standpipes completed	6.3Km of reticulation network and 29 standpipes completed
Number of Kilometre of water reticulation constructed, storage tanks constructed and borehole refurbished.	1,5 Kilometre of water reticulation constructed, 1 storage tanks constructed and 1 borehole refurbished.	0 Kilometre of water reticulation constructed, 0 storage tanks constructed and 0 borehole refurbished.	1.5 Kilometre of water reticulation constructed, 0 storage tanks constructed and 0 borehole refurbished.	1.5 Kilometre of water reticulation constructed
No of VIP sanitation units completed	2745 VIP sanitation units constructed	0 VIP sanitation units constructed	120 VIP sanitation units constructed	120 VIP sanitation units constructed
Kilometres of pipeline constructed, number of reservoir completed, number of boreholes completed	30km of reticulation pipeline constructed , 4* Reservoir completed, 7*boreholes completed	30km of reticulation pipeline constructed , 4* Reservoir completed, 5*boreholes completed	5km of reticulation pipeline constructed , 1* Reservoir completed, 1*boreholes completed	25km of reticulation pipeline constructed , 3* Reservoir completed, 4*boreholes completed
Kilometres of reticulation pipeline constructed, number of reservoir and WTW completed	3.4km of reticulation pipeline constructed , 1 reservoir completed and 1 WTW completed	0 km of reticulation pipeline constructed , 0 reservoir completed and 0 WTW completed	3.06 km of reticulation pipeline constructed , 0 reservoir completed and 0 WTW completed	3.06 km of reticulation pipeline constructed , 0 reservoir completed and 0 WTW completed
Kilometres of water pipeline completed	53 Kilometres of pipeline completed	35,9 kilometres of pipeline completed	53.6 kilometres of pipeline completed	17.7 kilometres of pipeline completed

Kilometres of bulk pipeline completed and number of reservoirs completed	1 Kilometre of bulk pipeline completed and 1 reservoir completed	0.2 Kilometre of bulk pipeline completed and 0 reservoir completed	0.9 Kilometre of bulk pipeline completed and 0 reservoir completed	0.9 Kilometre of bulk pipeline completed and 0 reservoir completed
Kilometres of water pipeline completed and number of reservoirs completed	38km of water pipeline constructed, 1* 500kl reservoir and 98 street taps	12km of water pipeline constructed, 0* 500kl reservoir and 11 street taps	28km of water pipeline constructed, 0* 500kl reservoir and 98 street taps	16km of water pipeline constructed, 0* 500kl reservoir and 87 street taps
Number of Plants participating in Blue	15 WTW participating in Blue drop	15 WTW participating in Blue drop	18 WTW participating in Blue drop	3 WTW participating in Blue drop
Number of registered sanitation incidents resolved within 14 days	800 registered sanitation incidents resolved within 14 days	949 registered sanitation incidents resolved within 14 days	901 registered sanitation incidents resolved within 14 days	48 registered sanitation incidents resolved within 14 days
Number registered water incidents resolved within 14 days	5500 registered water incidents resolved within 14 days	5783 registered water incidents resolved within 14 days	5596 registered water incidents resolved within 14 days	187 registered sanitation incidents resolved within 14 days
Number of registered M & E incidents resolved within 14 days	450 of registered M & E incidents resolved within 14 days	1213 registered sanitation incidents resolved within 14 days	1038 of registered M & E incidents resolved within 14 days	175 registered sanitation incidents resolved within 14 days

**The municipality was unable to provide some supporting documents for the reported achievements and where the evidence was provided it further did not agree to the reported achievements**

### Various indicators

35. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of the following indicators. This was due to the lack of accurate and complete records. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report for the indicators listed below:



Indicator	Target	Achievement as per APR	Audited	Difference
Green Drops Certification Programme	15 WWTW participating in green drop certification programme	15 WWTW participating in green drop certification programme	0 WWTW participating in green drop certification programme	15 WWTW participating in green drop certification programme

Indicator	Target	Achievement as per APR
Number of MI of potable Water delivered in Jane Furse Hospital and Buffelshoek	9.6 MI of Potable Water delivered in Jane Furse Hospital and Buffelshoek	88,66 MI of Potable Water delivered in Jane Furse Hospital and Buffelshoek

**Reported achievement did not agree with the evidence provided, i.e. not accurate and complete – projected misstatements**

#### Various indicators

36. The achievements reported in the annual performance report materially differed from the supporting evidence provided for the indicators listed below:

Indicator	Target	Achievement as per Summary list of queries for July 2019	Audited	Difference	Projected over the population
Number of registered sanitation incidents resolved within 14 days	of 800 registered sanitation incidents resolved within 14 days	74	61	-13	-154
Number registered water incidents resolved within 14 days	5500 registered water incidents resolved within 14 days	421	316	-105	-1396

Number of registered M & E incidents resolved within 14 days	450 of registered M & E incidents within 14 days	166	157	-9	-52
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**Reported achievement not verifiable**

**Various indicators**

37. The achievements below were reported in the annual performance report for the listed indicators. However, some supporting evidence provided materially differed from the reported achieved, while in other instances I was unable to obtain sufficient appropriate audit evidence. This was due to the lack of accurate and complete records. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any further adjustments were required to these reported achievements.

Indicator	Target	Achievement as per APR	Audited	Difference
Number of Kilometres of water supply pipeline constructed	7km of water supply pipeline constructed	0km of water supply pipeline constructed	Booster pump station	The evidence provided did not align to the indicator and Target
Number of water source developed	1 water sources developed	0 water sources developed	3.4 Km pipeline constructed	The evidence provided did not align to the indicator and Target

**Reported achievement not supported by sufficient appropriate audit evidence, i.e. not valid and accurate and complete.**

**Various indicators**

38. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of the following indicators. This was due to the lack of accurate and complete records. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report for the indicators listed below:

Indicator	Target
Number of Kilometres of bulk pipeline constructed and number of booster pump station constructed, number of reservoirs constructed (RBIG)	3 Kilometres of bulk pipeline constructed, 1 booster pump station, 1 concrete reservoir constructed
Number of Kilometres of bulk water pipeline constructed (RBIG)	4 Kilometres of bulk water pipeline constructed
Number of Zaaiplaas bulk pipeline commissioned, command reservoir constructed and pump station installed (MIG)	2 KM of Zaaiplaas bulk pipeline commissioned, 1 command reservoir constructed and 1 pump station installed
Kilometres of water pipeline and number of reservoirs completed (MIG)	10 kilometres of water pipeline and 4 reservoirs completed
Kilometres of water pipeline and number of reservoir completed (MIG)	20 kilometres of water pipeline and 1 reservoirs completed
Kilometres of water pipeline, number of reservoirs & pump station completed (MIG)	5 Kilometres of water pipeline, 1 reservoir & 1 pump station completed

**Reported achievement did not agree with the evidence provided, i.e. not valid.**

39. Included in the current year annual performance report is an indicator that was completed (achieved) in the prior year. The table below depicts the detail of the indicator and target:

Indicator	Target
Number of 5ML concrete reservoir completed (RBIG)	2 X 5 ML concrete reservoir completed

**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, performance and annual reports**

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, expenditure 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. Reasonable steps were not taken to prevent irregular expenditure amounting to R167 636 259 as disclosed in note 44 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with the procurement process. Irregular expenditure amounting to R93 270 284 was incurred on capital projects expenditure.

44. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R18 133 594 as disclosed in note 43 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 expenditure paid into incorrect account.

45. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R149 398 980 as disclosed in note 42 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

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

46. A performance management system was not adopted, as required by municipal planning and performance management regulation 8.

#### **Procurement and contract management**

47. Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by supply chain management (SCM) regulation 13(c).

48. 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.

49. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by inviting competitive bids as required by SCM regulations 19(a) and 36(1).

50. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days, as required by SCM regulation 22(1) and 22(2).
51. Measures to combat the abuse of the SCM system were not implemented as per the requirements of SCM regulation 38(1), because some of the contracts were awarded to providers who abused the SCM system of the municipality.
52. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all 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) (PPPFA).
53. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the PPPFA and its regulations.
54. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders that scored the highest points in the evaluation process as required by section 2(1)(f) of PPPFA and its regulations.
55. Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the Construction Industry Development Board (CIDB) and qualified for the contract in accordance with section 18(1) of the CIDB Act, 2000 (Act 32 of 2000) and CIDB regulations 17 and 25(7A).
56. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

### **Consequence management**

57. Allegations of financial misconduct against senior managers were not always tabled before council, as required by disciplinary regulations for senior managers 5(2).
58. Some of the 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.
59. 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.
60. 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

61. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the audit committees' 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.
62. 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.
63. 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

64. 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.
65. Although the leadership reviewed the annual financial statements and the annual performance report prior to their submission for audit, the internal control environment is not operating effectively as a number of misstatements were still identified.
66. There was no adequate review and monitoring of compliance with applicable laws and regulations.
67. The leadership did not have an adequate record keeping system to enable reliable reporting on performance achievement and retrieving of supporting information used to prepare financial statement.

## Other reports

68. 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.
69. Attorneys were appointed to assist recover an amount of R22 210 223 previously paid to service providers for services not yet rendered (VIP sanitation projects), relating to the 2013-

14 reporting period. The money paid to the service providers was still under investigation at the date of this audit report.

70. The municipality erroneously paid an amount of R5 452 014 into incorrect bank accounts during July 2018. As a result, investigations are being conducted by management to determine the liable parties.
71. The municipality paid an amount of R12 084 011 into an incorrect bank account during the 2018-19 financial year. As a result, investigations are being conducted by management to determine the liable parties.

*Auditor-General*

Polokwane

23 April 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 separate 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 separate financial statements as described in this auditor’s report, I also:
  - identify and assess the risks of material misstatement of the separate 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 Sekhukhune District Municipality and its subsidiary 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.