

# Report of the auditor-general to Limpopo provincial legislature on council of Ba-Phalaborwa Municipality.

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the Ba-Phalaborwa Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and the 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 matter described in the basis for qualified opinion section of this report, the financial statements present fairly, in all material respects, the financial position of the Ba-Phalaborwa Local Municipality as at 30 June 2019 and its financial performance and cash flows for the year then ended, in accordance with the applicable financial reporting framework and the requirements of the South African General reporting accounting practice (SA Standards of GRAP), Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2018 (Act No. 1 of 2018) (DoRA).

### Basis for qualified opinion

#### Property, plant and equipment

3. The municipality did not review the residual values and useful lives of assets at each reporting date in accordance with GRAP 17 *Property, plant and equipment*. As a result, assets with a gross carrying amount of R15 334 517 had a zero net carrying amount while still being in use. Consequently, I was not able to determine the impact on the net carrying amount of assets of R812 906 017 disclosed in note 11 to the financial statements, as it was impracticable to do so.
4. I was unable to obtain sufficient appropriate audit evidence for infrastructure assets, as the municipality did not have an adequate system for asset management. I was unable to confirm these physical assets by alternative means. Consequently, I was unable to determine whether any adjustment were necessary to infrastructure assets stated at R405 621 780 in note 11 to the financial statement.
5. The municipality did not have adequate systems in place to record all property, plant and equipment belonging to the municipality in the accounting records and financial statements. I identified a number of property, plant and equipments that were not recorded in the accounting records and financial statements. Consequently, I was unable to determine the full extent of the understatement of property, plant and equipments stated at R812 906 017 in note 11 to the financial statements as it was impracticable to do so.
6. I was unable to obtain sufficient appropriate audit evidence for provision for impairment on property, plant and equipment as no impairment assessment was performed. I identified a

significant number of assets which were supposed to have been impaired due to their physical condition. Consequently, I was unable to determine whether any adjustment was necessary to on property, plant and equipments stated at R812 906 017 disclosed in note 11 to the financial statements.

#### Inventories

7. Included in the accounting records and financial statements of the municipality are properties that do not belong to municipality and those owned by private individuals amounting to R11 740 402 that were incorrectly recognised as land inventory. Consequently, inventory stated at R252 543 366 was overstated by the above amount. I could not determine the consequent misstatements in other corresponding accounts as it was impractical to do so.

#### Payables from exchange transactions

8. I identified unexplained difference of R114 030 495 between the underlying records and the annual financial statements on the Mopani District Municipality (Water and Sanitation) account balance. Consequently, I was unable to determine whether any adjustment was necessary to payables from exchange transactions stated at R329 259 277 (2018: R287 033 212) in note 16 to the financial statements.

#### Other income

9. The municipality did not have adequate systems in place to identify and record revenue. I identified an amount of R64 941 355 that is incorrectly classified as other income whilst it relates to service charges, property rates and related interest charge. I could not confirm other income by alternative means. Consequently, I was unable to determine whether any further adjustment were necessary to other income of R67 569 784.

#### Cash flow

10. The municipality did not prepare the cash flow statement in accordance with GRAP 2, *Cash flow statements*. I was unable to reconcile amounts reflected in the cash flow statement to the underlying records. The cash flow statement is not a true reflection of cash flow of from operating and investing activities.

#### Irregular expenditure

11. During the 2017-2018 financial year, the municipality made payments in contravention of supply chain management requirements, resulting in irregular expenditure of R7 770 280. I was unable to obtain sufficient appropriate audit evidence for the irregular expenditure and to confirm the full extent of the understatement by alternative means. Additionally, I was unable to obtain sufficient appropriate audit evidence for adjustments to the opening balance of irregular expenditure amounting to R108 419 954 due to the status of the accounting records. Consequently, I was unable to determine whether any adjustments relating to irregular expenditure disclosed at R252 663 054 (2018:R 217 158 517) in note 56 to the annual financial statements was necessary.
12. The municipality made payments in contravention of supply chain management requirements, resulting in irregular expenditure of R6 376 993. I was unable to obtain sufficient appropriate audit evidence for the irregular expenditure and to confirm the full extent of the understatement by alternative means. Consequently, I was unable to determine whether any adjustments



relating to irregular expenditure disclosed at R252 663 054 (2018: R217 158 517) in note 56 to the annual financial statements was necessary.

### **Context for the opinion**

13. 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.
14. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) as well as the 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 codes.
15. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Emphasis of matters**

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

#### **Significant uncertainty**

17. With reference to note 47 to the financial statements, the municipality is the defendant in a claim, which it is opposing. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements

#### **Unauthorised expenditure**

18. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R99 659 596 as disclosed in note 54 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by non-cash items

#### **Restatement of corresponding figures**

19. As disclosed in note 49 to the financial statements, the corresponding figures for 30 June 2018 were have been restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2019.

### **Other matters**

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

### Unaudited supplementary schedules

21. The supplementary information set out on pages xx to xx 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 thereon.

### Unaudited disclosure notes

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

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

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

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.

## Report on the audit of the annual performance report

### Introduction and scope

27. 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 development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.



28. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators/ measures included in the planning documents. My procedures also did 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 annual performance report of the municipality for the year ended 30 June 2019 :

<b>Development priorities</b>	<b>Pages in the annual performance report</b>
Development priority 2: Basic services	x – x
Development priority 4: Local economic development	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 2: Basic services delivery**

**Indicator: Expenditure on electricity capital funding spent per quarter by 30/06/2019**

32. The actual performance achievement did not include expenditure spent on electricity capital funding amounting to R787 233.

**Indicator: Number of HH with access to free basic electricity by 30/06/2019**

33. The reported achievement of 3 867 does not agree with the supporting listing which has a total of 1 579 households.

**Indicator: Expenditure on roads capital funding spent per quarter by 30/06/2019**

34. The reported achievement of R16 161 071 does not agree with the payments certificates which total amount of R20 452 784.

**Indicator: Number of reports on maintenance of parks by 30/06/2019**

35. The reported achievement of 11 reports was not supported by valid documentation.

Indicator: Number of reports on maintenance of cemetery 30/06/2019

36. The reported achievement of 11 reports was not supported by valid documentation.

Indicator: Number of Roadblocks conducted by 30/06/2019

37. The reported achievement of 93 roadblocks was not supported by valid documentation.

Indicator: Number of quarterly reports submitted for rehabilitation and closure of Phalaborwa landfill site by 30/06/2019

38. The reported achievement of 04 was not supported by valid documentation.

Indicator: Number of Households with access to basic waste removal services by 30/06/2019

39. The reported achievement of 22 491 was not supported by valid documentation.

Indicator: Number of Households receiving free basic waste removal services by 30/06/2019

40. The reported achievement of 3 148 does not agree with the supporting listing which has a total of 1 579 households.

Indicator: Number of Households receiving free basic waste removal services by 30/06/2019

41. The reported achievement of 3 148 does not agree with the supporting listing which has a total of 1 579 households.

#### Development priority 4- Local economic development

Number of jobs created through capital projects by 30/06/2019 (temporary jobs)

42. The actual performance achievement was not supported with appropriate supporting documentation to enable the auditors to confirm the validity and accuracy.

Number of full time equivalent jobs created quarterly through EPWP

43. The actual performance achievement reported in the APR did not agree with the information as per the portfolio of evidence..

#### Other matters

44. I draw attention to the matters below.

#### Achievement of planned targets

45. Refer to the annual performance report on page(s) x to x; x to x for information on the achievement of planned targets for the year and explanations provided for the under of a significant number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph(s) x; x; x of this report.



### Adjustments of material misstatements

46. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of development priority 02: basic service delivery and development priority 4: local economic development. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above

## Report on the audit of compliance with legislation

### Introduction and scope

47. 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.
48. The material findings on compliance with specific matters in key legislations are as follows:

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

49. 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 asset, liabilities, revenue, expenditure and 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.

### Strategic planning and performance management

50. A performance management system was not established, as required by section 38(a) of the Municipal Systems Act, 2000 (Act No. 32 of 2000).
51. A performance management system was not adopted, as required by municipal planning and performance management reg 8.

### Procurement and contract management

52. Some of the bid documentation for procurement of commodities designated for local content and production, did not stipulated the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2)
53. Other SCM role players whose partners had a private or business interest in contracts awarded by the municipality participated in the process relating to that contract, in contravention of SCM regulation 46(2)(f).

## Expenditure management

54. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance supply chain management
55. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

## Asset management

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

## Other information

57. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported in this auditor's report
58. 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.
59. 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.
60. I had not received the other information as at the date of this report.

## Internal control deficiencies

61. 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 qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
62. The accounting officer and management did not exercise adequate oversight responsibility regarding financial and performance reporting and compliance with laws and regulations. Leadership did not exercise effective monitoring over the implementation of the audit action plan resulting in recurring prior year issues.
63. Consequence management was not implemented to deter non-performance and promote clean administration. The control environment remains concerning.



64. The basic accounting principles of daily and monthly accounting and reconciling of transactions have not been adequately implemented and monitored.
65. The financial statements and the annual performance report are not reviewed for accuracy and completeness by the accounting officer, and no proper record keeping was implemented
66. Internal controls for monitoring compliance with laws and regulations are ineffective as they do not detect and prevent instances of non-compliance with applicable laws and regulations.
67. The internal control monitoring mechanisms of the municipality are not functioning optimally, as many control weaknesses are only discovered during the audit of the financial statements and performance information.

Auditor General  
Polokwane

30 November 2019



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priorities and on the municipality’s compliance with respect to the selected subject matters.

### Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the [board of directors, which constitutes the accounting officer.
  - conclude on the appropriateness of the 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 municipality 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 this auditor’s report. However, future events or conditions may cause a municipality to cease continuing 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.