

# Report of the auditor-general to the provincial legislature and the council on Polokwane Local Municipality

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the Polokwane Local Municipality set out on pages xx to xx, 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 matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the Polokwane local municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2018 (Act No. 1 of 2018) (DoRA).

### Basis for qualified opinion

#### Property plant and equipment

3. I was unable to obtain sufficient appropriate evidence for the carrying amount of assets that have been disclosed as delayed projects. Furthermore, the municipality did not disclose individually or in aggregate, reasons of these delayed capital projects that took significantly longer to complete than expected, in accordance with GRAP 17, *Property, plant and equipment*. In addition, the municipality did not disclose the comparative amounts of these delayed projects as required by GRAP 1, *Presentation of financial statements* as the municipality did not have an adequate system of internal control for the recording of delayed projects and the reasons thereof. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the disclosure of carrying value of delayed projects stated at R233 378 034 (2018: R0) in note 11 to the financial statements.

#### Cash and cash equivalents

4. The change of the accounting system in April 2019 resulted in numerous errors in cash and cash equivalents. I identified invalid reconciling items, which were already recorded in both the bank statements and the accounting records. I was unable to obtain sufficient appropriate audit evidence for the reconciling items relating to receipts and payments, and to confirm or verify cash and cash equivalents stated at R128 045 871 by alternative means. As a result, I was

unable to determine whether any adjustment was necessary to recorded or unrecorded cash and cash equivalents and the related elements in the statement of financial performance, statement of changes in net assets and cash flow statements.

### Revenue and receivables from exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence for revenue from service charges as the municipality did not have an adequate system of internal control for measuring revenue recognised based on estimated consumption. The estimated consumption calculations included estimates where actual readings were obtained and excluded instances where actual consumption was not available. In certain instances, duplicate customer records were included in the data provided for the calculation and I was unable to distinguish between actual and estimated accounts from the data provided. I was unable to confirm revenue from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to service charges revenue from exchange transactions, stated at R1 386 291 118 (2018: R1 357 442 059) and receivables from exchange transactions stated at R291 303 193 (2018: R310 117 983) in the financial statements.

### Context for the opinion

6. 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.
7. 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.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### Emphasis of matters

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

### Material impairments

10. As disclosed in note 5 to the financial statements, material losses of R767 505 474 (2018: R672 195 284) was incurred as a result of the impairment of irrecoverable debtors.

### Significant uncertainty

11. With reference to note 53 to the financial statements, the municipality is the defendant in a number of claims. The municipality is opposing these claims. The ultimate outcome of these matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

### Restatement of corresponding figures

12. As disclosed in note 50 to the financial statements, the corresponding figures for 30 June 2018 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.

### Events after reporting date

13. With reference to note 60 to the financial statements, the President of the Republic of South Africa declared a national disaster on 15 March 2020 on the world wide outbreak of COVID - 19. This was subsequently followed by a national lockdown on 27 March 2020. This subsequent event will have a negative financial impact on certain assets and liabilities of the municipality, the impact was unknown as at reporting date.

### Other matters

14. I draw attention to the matters below. My opinion is not modified in respect of these matter/s.

### Unaudited supplementary schedules

15. The supplementary information as 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 on them.

### Unaudited disclosure notes

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

### Responsibilities of accounting officer for the financial statements

17. 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 financial statements that are free from material misstatement, whether due to fraud or error.
18. 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

19. 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.
20. 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

21. 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.
22. 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 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.
23. 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:

Development priorities	Pages in the annual performance report
KPA 2: Basic services and infrastructure	x – x
KPA 3: Local economic development	x – x

24. 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.
25. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

## KPA 2: Basic services and infrastructure

### Number of new smart meters installed by 30 June 2019

26. I was unable to obtain sufficient appropriate audit evidence to support the reported achievement of the target set at 2000. This was due to inadequate technical indicator descriptions that predetermined how the achievement will be measured, monitored and reported. I was unable to confirm the reported achievement of the indicator by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of 2 467 as reported in the annual performance report. **Various indicators**
27. The indicators listed below were changed without the necessary approval.

Planned indicator	Reported indicator
Percentage electricity reduction consumption losses by 30 June 2019.	Number of electricity retrofits fitted to reduce electricity losses by 30 June 2019
Number of promotion events conducted to build capacity of sport administrators by 30 June 2019.	Indicator not reported.

### Various indicators

28. The reported achievement in the annual performance report did not agree to the supporting evidence provided for the indicators listed below. The supporting evidence provided indicated that the achievements of these indicators were as follows:

Indicator description	Reported achievement	Audited value
Increase percentage of households with access to sanitation by 1,15% (2 745 units) by 30 June 2019	1,25%	1,12%
Number of new boreholes developed (drilled and equipped) by 30 June 2019	71	115
Increase percentage of households with access to Water by 0,75% (1 800 households) by 30 June 2019	0,82%	0,58%

Indicator description	Reported achievement	Audited value
Percent of households with access to waste removal services by 0,08%	0,23%	0,13%
Number of electricity retrofits fitted to reduce electricity losses by 30 June 2019	700	0

### Various indicators

29. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of 3 of the 19 indicators relating to this programme. This was due to limitations placed on the scope of my work. 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 of the indicators listed below:

Indicator number	Indicator description	Reported achievement
BSD _TL08	Number of old water meters replaced in the city by 30 June 2019	1 588
BSD _TL18	Number of rural villages provided with once a week waste removal services by 30 June 2019.	27

### KPA 3: Local economic development

#### Number of job opportunities created through the EPWP by 30 June 2019 (Temporary job opportunities)

30. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against the number of job opportunities created through the EPWP by 30 June 2019 (Temporary job opportunities) as reported in the annual performance report. This was due to limitations placed on the scope of my work and. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance.

### Various indicators

31. The reported achievement in the annual performance report did not agree to the supporting evidence provided for the indicators listed below. The supporting evidence provided indicated that the achievements of these indicators were as follows:

Indicator description	Reported achievement	Audited value
Number of job opportunities created through the EPWP by 30 June 2019 (Temporary opportunities)	2 771	718



Indicator description	Reported achievement	Audited value
Number of tourism and investment promotion trade shows attended by 30 June 2019	13	7
Number of job opportunities created through municipal sponsored trading	223	360

### Number of street traders capacitated through municipal sponsored training by June 2019.

32. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the target of 180. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of 188 as reported in the annual performance report.

### Other matters

33. I draw attention to the matters below.

### Achievement of planned targets

34. Refer to the annual performance report on pages ... to ... for information on the achievement of planned targets for the . 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 to x] of this report.

### Adjustment of material misstatements

35. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 2: basic services and infrastructure development and KPA 3: 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

36. 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.

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

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

38. 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, revenue and disclosure items identified by the auditors in the submitted financial statements were 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.

## Revenue management

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

## Conditional grant

40. I was unable to obtain sufficient appropriate audit evidence that some conditional grants were spent for their intended purposes in accordance with the applicable grant frameworks, as required by section 17(1) of the DoRA.

## Human resource management

41. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

## Expenditure management

42. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
43. Reasonable steps were not taken to prevent irregular expenditure amounting to R3 512 495 as disclosed in note 56 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by transgressions with supply chain processes.
44. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R437 080 272, as disclosed in note 54 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

## Strategic planning and performance management

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

The performance of Polokwane Housing Association was not monitored and reviewed as part of the annual budget process, as required by section 93B(b) of the MSA.



## Procurement and contract management

46. 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 Supply Chain Management (SCM) regulation 5.
47. 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.
48. Awards were made to providers who were in the service of the municipality and whose directors are in the service of the municipality, in contravention of section 112(j) of the MFMA and SCM regulation 44. Furthermore, the provider failed to declare that he/ she was in the service of the municipality, as required by SCM regulation 13(c).
49. Awards were made to providers who were in the service of other state institutions or whose directors were in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulation 44.
50. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e).

## Other information

51. The accounting officer is responsible for the other information. The other information comprises the information included in the annual 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.
52. 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.
53. 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.
54. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected, this will not be necessary.

## Internal control deficiencies

55. 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 the report.

56. The municipality did not have a proper filing system/a proper record management system to maintain information that supported the reported performance in the annual performance report. This included information that related to the collection, collation, verification, storing and reporting of actual performance information, as a result, some of the reported performance information was not adequately supported, resulting in findings on performance information. Failure to keep proper records and to regularly reconcile the accounting records contributed to the audit outcome on performance management and financial reporting.
57. Management did not implement the daily and monthly controls designed for the municipality's business processes.
58. The municipality's 2030 vision of building a smart city is largely dependent on an effective ICT system that will integrate the strategic vision with an operational plan for effective service delivery. The municipality did not have a formal process in place to monitor return on investment and benefits realization for spending over IT relating to infrastructure and software, external service providers and systems development. Furthermore, there was lack of formal controls over critical IT systems. Failure to adequately address the identified weakness will impact the achievement of vision 2030.
59. The financial statements contained numerous misstatements, some of which were corrected. This was mainly due to staff not fully understanding the requirements of the financial reporting framework and insufficient reviews performed on the financial statements by the chief financial officer.
60. Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored. The municipality did not take reasonable steps to prevent irregular and unauthorised expenditure.

*Auditor - General*

Polokwane

05 June 2020



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 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 related to events or conditions that may cast significant doubt on the Polokwane Local 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 operating 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
  - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion

### **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.