

Report of the auditor-general to the Limpopo Provincial Legislature and Council on Polokwane Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of Polokwane Local Municipality set out on pages xx to xx, 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 information with actual information 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 effects of the matters described in the basis for qualified opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the municipality as at 30 June 2020, and its financial performance and cash flows for the year then ended in accordance with the South African standards of GRAP and the requirements of the Municipal Finance Management Act of South Africa, (Act 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, (Act 16 of 2019) (DoRA).

Basis for qualified opinion

Property plant and equipment

3. The municipality did not adequately review the useful lives of assets at each reporting date in accordance with GRAP, 17 *Property, Plant and Equipment*. The change in estimates determined and used by the municipality could not be supported by sufficient appropriate audit evidence. Consequently, I was unable to determine whether any adjustment was necessary to Property, Plant and Equipment stated at R15 569 843 949 as disclosed in note 11 to the financial statements. Additionally, there is a resultant impact on depreciation and accumulated surplus.

Investment property

4. The municipality did not correctly calculate the fair value of land held to earn rentals or for capital appreciation in accordance with the requirements of GRAP 16, *Investment property*. This was due to inadequate assumptions made and variables used in the valuation methodology which were not supported by reliable and accurate information. In addition, I was unable to obtain sufficient appropriate audit evidence to confirm the fair value adjustment amounting to R378 138 925 included in note 10 to the financial statements as sufficient appropriate audit evidence was not provided. I was unable to confirm this fair value adjustment by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to Investment property stated at R 1 115 883 515 as disclosed in note 10 to the financial statements.

Revenue and receivables from exchange transactions

5. The municipality's revenue and receivables related to service charges was incorrectly calculated as the estimated consumption used included inaccurate and incomplete information. This was due to an inadequate system of internal controls implemented to identify and measure such revenue. Consequently, I was unable to determine whether any further adjustments were necessary to revenue from exchange transactions stated at R1 490 130 351 (2019: R1 321 630 866) and receivables from exchange transactions stated at R111 372 825 (2019: R129 838 944) as disclosed in note 24 and note 5 respectively to the financial statements. Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

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 *Code of ethics for professional accountants* and parts 1 and 3 of the *International Code of Ethics for Professional Accountants (including International Independence Standards)* of the International Ethics Standards Board for Accountants (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.

Restatement of corresponding figures

10. As disclosed in note 50 to the annual financial statements, the corresponding figures for 30 June 2019 were restated as a result of errors in the financial statements of the municipality as at, and for the year ended 30 June 2020.

Significant uncertainty

11. With reference to note 53 to the financial statements, the municipality is a defendant in a number of claims. The ultimate outcomes of the matter could not be determined and no provision for any liability that may result was made in the financial statements.

Events after reporting date

12. I draw attention to note 60 in the financial statements, which deals with subsequent events as a result of COVID -19. Management has indicated that the events will not have a financial implication for the municipality.

Material losses

13. As disclosed in note 39 to the financial statements, material electricity losses of R107 822 221 (2019: R55 249 012) was incurred, which represents 15% (2019: 9%) of total electricity purchased.

Other matters

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

Unaudited disclosure notes

15. 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 on it.

Unaudited supplementary schedules

16. 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 on them.

Responsibilities of the 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 GRAP and the requirements of the MFMA and DORA 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.

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 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.
- 22. My procedures address the usefulness and reliability of 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 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.
- 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 2020:

| Development priorities | Pages in the annual performance report |
|-------------------------------|--|
| KPA 2: Basic service delivery | 52 – 57 |

- 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. I did not identify any material findings on the usefulness and reliability of the reported performance information for this development priority:
 - KPA 2: Basic service delivery

Other matters

- 26. I draw attention to the matters below.

Achievement of planned targets

- 27. Refer to the annual performance report on pages 52 to 57 for information on the achievement of planned targets for the year.

Adjustment of material misstatements

28. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of basic service delivery. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

29. 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.
30. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements, annual performance report and annual report

31. 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 current assets, liabilities, revenue 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.

Revenue management

32. 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 grants

33. I was unable to confirm whether performance in respect of programmes funded by the Public Transport Network Grant was evaluated within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act (Act 1 of 2018).

Expenditure management

34. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
35. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R462 089 517, as disclosed in note 54 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.

36. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by contravention of the SCM regulations.

Procurement and contract management

37. Some of the commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content as required by the 2017 preferential procurement regulation 8(5).

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

39. Awards were made to providers who were in the service of other state institutions or whose directors / principal shareholders were in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).

40. Persons in service of the municipality whose close family members 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), the code of conduct for councillors issued in terms of the Municipal Systems Act, 2000 (Act No 32 of 2000) (MSA) and the code of conduct for staff members issued in terms of the MSA.

Consequence management

41. 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.

42. 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 / municipal budget and reporting regulations 75(1).

43. Losses resulting from irregular expenditure were certified by council as irrecoverable without having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(b) of the MFMA / municipal budget and reporting regulations 75(2).

Other information

44. 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 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.

45. 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.

46. 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.
47. I did not receive the other information prior to the date of this auditor`s report. When I do receive and read this information and 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

48. 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, and the findings on compliance with legislation included in this report.
49. 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 were not adequately supported, resulting in findings on performance information; even though the findings were subsequently corrected.
50. 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

14 May 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 Polokwane Local Municipality 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
 - 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, actions taken to eliminate threats or safeguards applied.