

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

Report on the audit of the consolidated and separate financial statements

Qualified opinion

1. I have audited the consolidated and separate financial statements of Polokwane Local Municipality and Polokwane Housing Associates (the group) set out on pages xx to xx which comprise the consolidated and separate statement of financial position as at 30 June 2021, the consolidated and separate statement of financial performance, statement of changes in equity, statement of cash flows and statement of comparison of budget information with actual information for the year then ended, as well as notes to the consolidated and separate 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 audit report, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group as at 30 June 2021, 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 of South Africa, 2020 (Act No 4 of 2020) (DoRA).

Basis for qualified opinion

Property, plant and equipment

3. Work-in-progress amounting to R519 623 452 included in note 11 to the consolidated and separate 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 R519 623 452. I was unable to quantify the misstatement of the depreciation amount as the municipality did not determine useful lives for these completed assets.
4. The municipality did not recognise land in accordance with GRAP 17, *Property, plant and equipment*. Land owned by the municipality was not recognised in the consolidated and separate financial records as the municipality did not have adequate systems in place to account for all land parcels. I was unable to determine the full extent of the understatement of land in property plant and equipment as it was impracticable to do so.
5. The municipality did not assess impairment of property, plant and equipment in accordance with GRAP 21 and GRAP 26, *Impairment of non-cash-generating assets and Impairment of cash generating assets* respectively. Infrastructure assets and community assets with a carrying amount of R13 243 500 887 and R2 426 415 122 in note 11 to the consolidated and the separate financial statements contained assets that had impairment indicators but were

not assessed for impairment. I was unable to determine the value of the misstatement on Property, plant and equipment as it was impracticable to do so.

Revenue from exchange transactions

6. The municipality did not recognise revenue in accordance with GRAP 9, *Revenue from exchange transactions*. Revenue from solid waste and sewer and sanitation was not correctly calculated as the municipality used inaccurate floor/ surface area of the property or sewerage points in their calculation. This resulted in solid waste and sewer and sanitation revenue being understated by R70 255 578 and R54 461 363 respectively. Consequently, receivables from exchange transactions was understated by R124 716 941. Additionally, there was an impact on surplus for the period on the consolidated and separate financial statements.

Context for the opinion

7. 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 consolidated and separate financial statements section of my report.
8. I am independent of the group in accordance with 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.
9. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Restatement of corresponding figures

11. As disclosed in note 52 to the consolidated and separate annual financial statements, the corresponding figures for 30 June 2020 were restated as a result of errors in the consolidated and separate financial statements of the group at, and for the year ended 30 June 2021.

Significant uncertainties

12. With reference to note 55 to the consolidated and separate financial statements, the group is a defendant in a number of claims. The ultimate outcome of these matters could not be determined and no provision for any liability that may result was made in the consolidated and separate financial statements.

Impairment of trade debtors

13. As disclosed in note 40 to the consolidated and separate financial statements, an impairment of trade debtors of R141 241 151 was incurred as a result of debt which is doubtful for recovery and inadequate collecting systems.

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 group 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 consolidated and separate 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 consolidated and separate 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 consolidated and separate financial statements

17. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
18. In preparing the consolidated and separate financial statements, the accounting officer is responsible for assessing the group'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 group or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the consolidated and separate financial statements

19. My objectives are to obtain reasonable assurance about whether the consolidated and separate 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 consolidated and separate financial statements.

20. A further description of my responsibilities for the audit of the consolidated and separate 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 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 municipality's approved performance planning documents. 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's enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or 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 municipality's annual performance report for the year ended 30 June 2021:

Development priorities	Pages in the annual performance report
KPA 1 – Basic service delivery	xx – xx

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:
- KPA1: 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 xx to xx 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 on 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.

32. Material misstatements of non-current assets, 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, however the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

33. Reasonable steps were not taken to prevent irregular expenditure amounting to R72 934 604 as disclosed in note 58 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by contravention of the supply chain management (SCM) regulations.

34. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R614 252 938, as disclosed in note 56 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending on the budget due non-cash items.

Procurement and contract management

35. Some of the contracts above R30 million did not include a condition for mandatory subcontracting to advance designated groups, as required by the 2017 preferential procurement regulation 9(1).
36. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.
37. 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.
38. The contract performance and monitoring measures were not in place to ensure effective contract management, as required by section 116(2)(c)(ii) of the MFMA. Similar non-compliance was also reported in the prior year.
39. 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

40. 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.
41. 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 and municipal budget and reporting regulations 75(1).

Asset management

42. 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.

Revenue management

43. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

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 the consolidated and separate 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 consolidated and separate 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.
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 consolidated and separate 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 consolidated and separate 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 accounting officer did not adequately review the financial statements prior to submission for audit, misstatements in the consolidated and separate financial statements were not detected by the municipality's own system of internal controls.
50. The municipality did not have sufficient monitoring controls to ensure the proper implementation of the overall processes of compliance with legislation. Non-compliance with legislation could have been prevented had compliance been reviewed and monitored

Auditor - General

Polokwane

16 February 2022



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 consolidated and separate financial statements and the procedures performed on reported performance information for selected development priorities on the municipality’s compliance with respect to the selected subject matters.

Financial statements

51. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the consolidated and 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 group’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 consolidated and separate 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 group 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 consolidated and separate financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the consolidated and separate 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 them consolidated and separate financial statements, including the disclosures, and determine whether the consolidated and separate 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 and separate 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

52. 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.
53. I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.