

Report of the auditor-general to Limpopo Provincial legislature and municipal council on Thabazimbi Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Thabazimbi Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2023, statement of financial performance, statement of changes in net assets, and cash flow statement and statement of comparison of budget to actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the matters 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 Thabazimbi Local Municipality as at as at 30 June 2023 and its financial performance and cash flows for the year then ended in accordance with the Standards of the Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2022 (DoRA).

Basis for qualified opinion

Property, plant, and equipment

3. The residual values and useful lives of assets were not reviewed at each reporting date in accordance with GRAP 17, *Property, plant, and equipment*. As a result, assets with a gross carrying amount of R21 387 859 (2022: R21 387 859) had a zero net carrying amount while still being in use. I was unable to determine the impact on the net carrying amount of property, plant and equipment as it was impracticable to do so.
4. The municipality did not assess at each reporting date the indication that assets might be impaired in accordance with GRAP 21, *Impairment of non-cash generating assets*. As a result, the recoverable service amount of assets was not estimated. I was unable to determine the impact on the net carrying amount of assets as it was impracticable to do so. Consequently, I was unable to determine whether any adjustment relating to assets, stated at R881 323 209 (2022: 847 323 843) in the financial statements, was necessary.
5. Adequate systems were not in place to record assets in accordance with GRAP 17, *Property plant and equipment*. Movable assets were not recorded in the current and previous years. I was unable to determine the full extent of the understatement of movable assets as it was impracticable to do so.

Revenue from exchange transactions

6. Service charges revenue was not recognised as required by GRAP 9, *Revenue from exchange transactions*. Properties were identified for which service charges were not billed and recorded. I was unable to determine the full extent of the understatement of service charges stated at R152 313 503 in note 20 to the financial statements, and related receivable from exchange transactions, stated at R53 845 968 in note 7 to the financial statements, as it was impracticable to do so.

Revenue from non-exchange transactions

7. Property rates were not calculated in accordance with the Standards of GRAP 23, *Revenue from non-exchange transactions*. Incorrect property values were used to calculate property rates. Consequently, property rates was overstated by R9 318 734 and the related receivables were overstated by the same amount. Additionally, there was an impact on the surplus for the period and on the accumulated surplus.

Expenditure

8. Bulk purchases were not correctly accounted for as the readings on the supplier invoices for the expenditure charged did not agree to the municipality's meter readings. The municipality did not have adequate systems of internal control for the reconciling of its readings to those of the service provide. Consequently, bulk purchases were overstated by R4 836 764, and related payables is overstated by the same amount in the financial statements. Additionally, there was an impact on the surplus for the period and on the accumulated surplus.
9. During 2022, I reported that the municipality did not recognise contracted services in accordance with GRAP 1, *Presentation of financial statements*, as the municipality recorded items of property, plant and equipment as contracted services. Consequently, contracted services were overstated by R22 332 855, property, plant and equipment were understated by R19 835 798 and inventory was understated by R2 497 057. My audit opinion on the financial statements for the period ended 30 June 2022 was modified accordingly. My opinion on the current year financial statements was also modified because of the possible effect of this matter on the comparability of contracted services and property plant and equipment for the current period.

Contingent liabilities

10. I was unable to obtain sufficient appropriate audit evidence for contingent liabilities due to a lack of proper record keeping. I was unable to confirm contingent liabilities by alternative means. Consequently, I was unable to determine whether any further adjustments to contingent liabilities stated at R53 064 288 in note 50 to the financial statements, were necessary.

Context for opinion

11. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the financial statements section of my report.

12. I am independent of the municipality 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.
13. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty relating to going concern

14. I draw attention to the matter below. My opinion is not modified in respect of this matter.
15. I draw attention to note 44 to the financial statements, which indicate that the municipality is in a net current liability position and its key financial ratios are adverse. As stated in note 44, these events or conditions, along with the other matters as set forth in the note, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

Emphasis of matters

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

Material losses-Water

17. As disclosed in note 38.1 to the financial statements, material water losses of R25 423 629 (2021-22: R23 415 145) was incurred, which represents 67.85% (2021-22: 62.62%) of total water purchased.

Restatement of corresponding figures

18. As disclosed in note 37 to the financial statements, the corresponding figures for 30 June 2022 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2023.

Other matter

19. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

20. 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.

Responsibilities of the accounting officer for the financial statements

21. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the 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.
22. 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.

Responsibilities of the auditor-general for the audit of the financial statements

23. 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.
24. 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

25. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected objective presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
26. I selected the following objective presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected an objective that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

Objective	Page numbers	Purpose
Basic service delivery and infrastructure	XX	To ensure quality services to community by improving current infrastructure to sustainable levels and promote environmental management system

27. I evaluated the reported performance information for the selected objective against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the municipality's planning and delivery on its mandate and objectives.

28. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives.
- the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements.
- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated.
- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents.
- the reported performance information is presented in the annual performance report in the prescribed manner.
- there is adequate supporting evidence for the achievements reported and for the reasons provided for any measures taken to improve performance.

29. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.

30. The material findings on the reported performance information for the selected objective are as follows:

Basic service delivery and infrastructure

Multiple indicators

31. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against targets for the indicators listed below as reported in the annual performance report. This was due to limitations placed on the scope of my work. 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.

Indicator	Planned target	Reported achievement
0,75km of internal street paved in Northam extension 5 by set date (phase 2)	0.75km	0.25km
100% transfer station constructed in Northam by set date	100%	0%
5km of water network (ward 9,10) upgraded in Regorogile by 30 June 2023	5km	4.5km
6km of pipeline in Northam phase 2 ward 7,8 upgraded by set date (ward 7&8)	6km	1.5km
10km of overhead line constructed (all wards)	10km	0km
60% of 120 MVA substation constructed in smash block by 30June 2023(ward 3, ward 6 and ward 8	60%	50%

32. I could not determine if the reported achievements were correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievements might be more or less than reported and were not reliable for determining if the targets had been achieved.

Indicator	Planned Target	Reported achievement
364 of VIP toilets in Rooiberg, Skierlik, Meriting phase 1 constructed by set date	364 VIP toilets	103 VIP toilets
5km of water network (ward 9, 10) upgraded in Regorogile by 30 June 2023	5km	4.5km
6km of water reticulation on phase 2 upgraded in Northam by set date	6km	0%
60% of 120 MVA substation constructed in smash block by set date.	60%	50%
0.75km of internal streets paved in Northam	0.75	0.25km

Other matter

I draw attention to the matter below.

Achievement of planned targets

33. The annual performance report includes information on reported achievements against planned targets and provides explanations for measures taken to improve performance. This

information should be considered in the context of the material findings on the reported performance information.

Basic service delivery and infrastructure

<i>Targets achieved: 23%</i> <i>Budget spent: 51%</i>		
Key service delivery indicator not achieved	Planned target	Reported achievement
Number of km of bus route constructed by set date	2km	1,3km
0,75km of roads paved roads constructed in Northam extension 5 by June 30 2023 (ward 1	0.75km	0.25 km
100% transfer station constructed in Northam by 30 June 2023(ward 7)	100%	0%
5km of water network (ward 9,10) upgraded by 30 September 2023	5km	4.5km
364 VIP toilets constructed (Rooiberg,Skierlik and Mereting) by 30 June 2023(Ward 4,1 &9)	364 VIP toilets	103 VIP toilets
6km of pipeline in Northam phase 2 ward 7,8 upgraded by 30 June 2023(ward 7&8)	6km	1,5km
6km of bulk water pipeline between Thabazimbi pump station and Thabazimbi Y piece upgraded by 30 June 2023	6km	0km
10km of overhead line constructed (all wards)	10km	0km
60% of 120 MVA substation constructed in smash block by 30June 2023(ward 3, ward 6 and ward 8)	60%	50%
1 negotiate acquisition of 1 trailer by 30 June 2023	1	0

Material misstatements

34. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for Basic service delivery and infrastructure. Management did not correct all of the misstatements and I reported material findings in this regard.

Report on compliance with legislation

35. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial

management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.

36. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.
37. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the municipality, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.
38. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements, performance, and annual reports

39. 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.
40. Material misstatements of non-current assets, current assets, liabilities, revenue, expenditure, and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Procurement and contract management

41. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by supply chain management (SCM) regulation 19(a).
42. Some of the goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(1)(a) and (c).
43. Some of the quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
44. Some of the invitations to tender for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2). Similar non-compliance was also reported in the prior year.
45. 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).

46. Sufficient appropriate audit evidence could not be obtained that contracts were extended or modified with the approval of a properly delegated official as required by SCM regulation 5. Similar limitation was also reported in the prior year.
47. Sufficient appropriate audit evidence could not be obtained that the performance of contractors or providers was monitored on a monthly basis as required by section 116(2) of the MFMA. Similar limitation was also reported in the prior year.
48. Sufficient appropriate audit evidence could not be obtained that contract performance and monitoring measures were in place to ensure effective contract management as required by section 116(2)(c)(ii) of the MFMA. Similar limitation was also reported in the prior year.
49. Awards were made to providers who were 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).
50. 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(1)(j) and SCM regulation 44.

Expenditure management

51. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
52. 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 contravention of SCM regulations 36 and section 116(3) of the MFMA where payments were made to suppliers whose contracts had expired.
53. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R14 326 275, as disclosed in note 35 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties charged by suppliers for late payments.
54. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R42 950 958, as disclosed in note 36.2 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 not adequately budgeted for.

Revenue management

55. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.
56. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.

Strategic performance and planning

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

Consequence management

58. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
59. Irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
60. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Asset management

61. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
62. 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 in the annual report

63. The accounting officer is responsible for the other information included in the annual report, which includes the audit committee's report. The other information referred to does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported on in this auditor's report.
64. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
65. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
66. 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

67. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
68. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
69. The accounting officer and management did not perform adequate reviews on the financial and performance reporting and compliance with laws and regulations.
70. The basic accounting principles of daily and monthly accounting and reconciling of transactions were not adequately implemented and monitored by management.
71. The accounting officer did not review the financial statements and the annual performance report for accuracy and completeness.
72. Internal controls for monitoring compliance with laws and regulations were ineffective as they do not detect and prevent instances of non-compliance with applicable laws and regulations.
73. The internal control monitoring mechanisms of the municipality were 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 2023



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

- The auditor-general's responsibility for the audit
- The selected legislative requirements for compliance testing

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

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 objectives and on the municipality's compliance with selected requirements in key legislation.

Financial statements

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
- conclude on the appropriateness of the 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 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.

Communication with those charged with governance

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.

I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and 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.

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

[illegible]