

Report of the auditor-general to Limpopo Provincial Legislature and the Council on Capricorn District Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Capricorn district 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, cash flow statement and statement of comparison of budget and 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, the financial statements present fairly, in all material respects, the financial position of the Capricorn district municipality as at 30 June 2023 and its financial performance and cash flows for the year then ended in accordance with the Standards of 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 opinion

3. 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.
4. 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.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

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

Restatement of corresponding figures

7. As disclosed in note 53 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.

An uncertainty relating to the future outcome of exceptional litigation or regulatory action

8. With reference to note 43 to the financial statements, the municipality is the defendant in a lawsuit claim. The municipality is opposing the claim. The ultimate outcome of the matter could not be determined and no provision for any liability that may result was made in the financial statements.

Impairments – trade debtors

9. As disclosed in note 30 to the financial statements, material losses of R77 756 377 were incurred as a result of an allowance for impairment.

Material losses – water

10. As disclosed in note 2 to the financial statements, material water losses of R30 075 071 (2022: R32 794 299) was incurred, which represents 38,30% (2022: 38,86%) of total water purchased as disclosed in note 33 to the financial statements. Technical losses amounted to R30 075 071 (2022: R32 794 299) and was due to aging infrastructure.

Other matter

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

Unaudited supplementary schedules

12. The supplementary information set out on page xx to xx does not form part of the financial statements and is presented as additional information. We have not audited these schedules and, accordingly, we do not express an opinion on them.

Responsibilities of the accounting officer for the financial statements

13. 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 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.
14. 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 to cease operations, or has no realistic alternative but to do so.

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

15. 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.
16. 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

17. 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 development priorities presented in the annual performance report. The Accounting officer is responsible for the preparation of the annual performance report.
18. I selected the following development priorities presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected a development priority that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

Development priority	Page numbers	Purpose
Basic service and Infrastructure	xx	To provide sustainable basic service and Infrastructure development

19. I evaluated the reported performance information for the selected development priorities 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.
20. 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 over- or underachievement of targets/ measures taken to improve performance.

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

22. I did not identify any material findings on the reported performance information for the development priority basic service and infrastructure.

Other matter

23. I draw attention to the matter below.

Achievement of planned targets

24. The annual performance report includes information on reported achievements against planned targets and provides explanations for over- or underachievement/ measures taken to improve performance.

Report on compliance with legislation
--

25. 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.

26. 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.

27. 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.

28. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Procurement and contract management

29. Some of the tenders which achieved the minimum qualifying score for functionality were not evaluated further in accordance with 2017 preferential procurement regulation 5(7). This non-compliance was identified in the procurement processes for the maintenance and refurbishment of wastewater infrastructure panel appointed by the municipality.

Other information in the annual report

30. 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 development priorities presented in the annual performance report that have been specifically reported on in this auditor's report.
31. 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.
32. 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 development priorities presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
33. 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

34. 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.

35. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the unqualified opinion included in this report.
36. Internal controls for monitoring compliance with legislation were ineffective as it did not detect and prevent instances of non-compliance with laws and regulations.

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 development priorities 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:

Legislation	Sections or regulations
Supply Chain Management Regulation GNR.868 of 2005	• SCM reg. 12(1)(c), 16(a), 17(a), (b) & (c) • SCM reg. 13(c) • SCM reg. 43 • SCM reg. 19(a) & (b); • SCM reg. 36(1)(a) • SCM reg. 12(3) • SCM reg. 27(2)(a) & (e) • SCM reg. 22(1)(b) & 22(2) • SCM reg. 29(1)(a) & (b) • SCM reg. 29(5)(a)(ii) & (b)(i) • SCM reg. 38(1)(c.), (d)(ii) & (g)(iii) • SCM reg 38(1)(e.), (g)(i) & (ii) • SCM reg. 32 • SCM reg. 44
Municipal Finance Management Act 56 of 2003	• MFMA section 117 • MFMA section 116(2)(b) • MFMA section 112(1)(j) • MFMA 122(1) • MFMA 126(1)(a) • MFMA 133(1)(a), (c)(i) & (ii) • MFMA 127(2), (5)(a)(i) & (ii) • MFMA 129(1), (3) • MFMA 63(2)(a) & (c) • MFMA 13(2) • MFMA 14(1), (2)(a) & (b) • MFMA 65(2)(e), (a) & (b) • MFMA 11(1)

Legislation	Sections or regulations
	• MFMA 62(1)(d) • MFMA 15 • MFMA 29(1) & (2)(b) • MFMA 62(1)(f)(i) & (iii) • MFMA 64(2)(b), (c), (e), (f) & (g) • MFMA 53(1)(c)(ii) • MFMA 1 • MSA 34(a) and 41(1)(c)(ii) • MFMA 24(2)(c)(iv) • MFMA 54(1)(c) • MFMA 32(2)(a), (a)(ii) & (b) • MFMA 170 • MFMA 32(6)(a) • MFMA 171(4)(a)
Preferential Procurement Policy Framework Act 05 of 2000	• PPPFA sec 2(1)(a); • PPPFA section 2(1)(f)
Preferential Procurement Regulation 2017 and 2022	• PPR 2017 6(1) and 7(1) • PPR 2022 4(1) and 5(1) • PPR 2017 6(8), 7(8), 10(1) & (2) & 11(1) • PPR 2022 4(4) & 5(4) • PPR 2017 5(1) & 5(3) • PPR 2017 5(6) • PPR 2017 9(1)
Construction Industry Development Board Act 38 of 2000	• CIDB Act section 18(1) • CIDB reg. 17; • CIDB reg. 25(7A)
Municipal Investment Regulation GNR.308 of 1 April 2005	• Municipal investment regulation 3(3) • Municipal investment regulation 6 • Municipal investment regulation 7 • Municipal investment regulation 12(2)
Division of Revenue Act 5 of 2022	• DoRA 16(1) & (3) • DoRA 12(5)
Municipal Investment Regulation GNR 308 of 1 April 2005	• Municipal budget and reporting regulation 71(1) & (2) • Municipal Budget & Reporting reg 75(2)
Municipal System Act 32 of 2000	• MSA 74(1) • MSA 96(b) • MSA 29(1)(b)(ii) & (3)(b) • MSA 42 • MSA 25(1) • MSA 26(a) & (c) • MSA 41(1)(a), • MSA sec. 43(2), • MSA 34(a) & (b) and 41(1)(c)(ii) • MSA 38(a) • MSA 57(6)(a)

Legislation	Sections or regulations
	• MSA 56(a) • MSA 66(1)(a) & (b) • MSA 67(1)(d) • MSA 57(2)(a)
Municipal Property Rates Act 6 of 2004	Municipal Property Rates Act 3(1)
Municipal planning and Performance management regulation 2001	• Municipal planning and performance management reg 15(1)(a)(i) • Municipal planning and performance management reg 2(1)(e) • Municipal planning and performance management reg 2(3)(a) • Municipal Planning and Performance Management reg 9(1)(a) • Municipal Planning and Performance Management reg 10(a) • Municipal planning and performance management reg 12(1) • Municipal planning and performance management reg 3(4)(b) and 15(1)(a)(ii) • Municipal planning and performance management reg and 3(6)(a) • Municipal planning and performance management regulation 3(3) • Municipal planning and performance management reg 8 • Municipal planning and performance management reg 7(1).
Municipal regulation on financial misconduct procedures and criminal proceeding GNR 430 of 30 May 2014	• Financial Misconduct reg 5(4) • Financial Misconduct reg 6(8)(a) • Financial Misconduct reg 10(1)