

Report of the auditor-general to the Gauteng Provincial Legislature and the Council on the Lesedi Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Lesedi Local Municipality set out on pages x to x, which comprise the appropriation statement, statement of financial position as at 30 June 2024, statement of financial performance, statement of changes in net assets, and 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 Lesedi Local Municipality as at 30 June 2024, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2023 (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.

Significant uncertainties

7. With reference to note 55 to the financial statements, the municipality is the defendant in various claims disclosed as contingent liabilities. The municipality is opposing the claims, as it believes that the claims are not valid. The ultimate outcome of these matters could not be

determined and no provision for any liability that may result was made in the financial statements.

Material impairment – trade debtors

8. As disclosed in note 6 to the financial statements, material losses of R1 589 018 024 (2022-23: R1 464 995 916) were incurred as a result of a write-off of irrecoverable consumer debtors.

Material losses – electricity

9. As disclosed in note 42 to the financial statements, material electricity losses of R 77 786 310 (2022-23: R48 507 880) were incurred, which represents 29% (2022-23: 22%) of total electricity purchased. Technical losses amounted to R14 086 581 (2022-23: R11 219 614) and were due to the electricity that was lost on distribution from the source of generation through the transmission and distribution network to the final consumer. Non-technical losses amounted to R63 699 729 (2022-23: R37 288 266) and were due to negligence, tampering with meters and illegal connections.

Material losses – water

10. As disclosed in note 42 to the financial statements, material water losses of R37 708 611 (2022-23: R31 758 730) were incurred, which represents 35% (2022-23: 33%) of total water purchased. Technical losses amounted to R5 754 841 (2022-23: R5 178 497) and were due to physical loss through the water distribution network. Non-technical losses amounted to R31 953 770 (2022-23: R26 580 233) and were due to persistent leakages as a result of aging water supply infrastructure and illegal connections.

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 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.
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 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

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. This description, which is located at page X, forms part of my 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 priority 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 priority presented in the annual performance report for the year ended 30 June 2024 for auditing. I selected a development priority that measures the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

Development priority	Page numbers	Purpose
Basic Service Delivery	XX	To improve access to sustainable basic services through proactive maintenance of infrastructure, and to ensure that basic services are progressively expanded in all communities through proper planning.

19. I evaluated the reported performance information for the selected development priority 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
- all the indicators relevant for measuring the municipality's performance against its primary mandated and prioritised functions and planned objectives are included
- 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 and is comparable and understandable.
- there is adequate supporting evidence for the achievements reported.

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 selected development priority.

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 measures taken to improve performance

25. The table that follows provides information on the achievement of planned targets and lists the key indicator that was not achieved as reported in the annual performance report. The reason for any underachievement of targets are included in the annual performance report on pages x to x.

Basic Service Delivery

<i>Targets achieved: 92%</i>		
<i>Budget spent: 90%</i>		
Key indicator not achieved	Planned target	Reported achievement
Percentage of new houses electrified within 45 working days after the receipt of the application	60%	59%

Report on compliance with legislation

26. 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.

27. 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.
28. 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.
29. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements

30. The financial statements submitted for auditing were not fully prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of revenue and the statement of comparison of budget and actual amounts identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

31. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM Regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM Regulation 36(1).

Expenditure management

32. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
33. Reasonable steps were not taken to prevent irregular expenditure amounting to R6 396 994 as disclosed in note 60 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with supply chain management processes.
34. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R9 023 830, as disclosed in note 58 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by inadequate budgeting processes.
35. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R20 341 095, as disclosed in note 59 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 on late payments

Other information in the annual report

36. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's report and the selected development priority presented in the annual performance report that have been specifically reported on in this auditor's report.
37. 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.
38. 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 priority presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
39. 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

40. 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.
41. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.
42. The accounting officer did not always exercise adequate oversight responsibility regarding compliance with laws and regulations.
43. Senior management did not always ensure that adequate controls were in place over the preparation of accurate and complete financial reporting. In addition, action plans were developed but were not regularly monitored to ensure adequate implementation.

Material irregularities

44. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of material irregularities as previously reported in the auditor's report.

Status of previously reported material irregularities

Payment made to an incorrect beneficiary

45. The municipality made payments to an incorrect service provider between August 2021 and January 2022 due to ineffective processes for the approval and authorisation of payments as required by section 65(2)(a) of the MFMA.
46. The non-compliance is likely to result in a material financial loss of R2,1 million for the municipality if not recovered. The financial loss is disclosed in note 55 to the 2021-22 annual financial statements.
47. The accounting officer was notified of the material irregularity on 18 April 2023 and was invited to make a written submission on the actions that will be taken to address the matter.
48. The accounting officer took the following actions to address the material irregularity:
 - A service provider was appointed in April 2022 to conduct an investigation which was finalised in October 2022.
 - Three employees were recommended for disciplinary process based on the outcome of the investigation report.
 - Two of the three employees entered into a plea agreement with the municipality in January 2023 and sanctions agreed upon range from final written warnings, forfeiture of 10 % basic salary and any notch, annual and increment increase for a period of six and 12 months, respectively. In addition, employees attended accountability and ethical training in February 2023.
 - Employees were moved to other positions within the municipality.
 - The two employees will qualify for annual, and notch increases in July 2024 and January 2025, respectively.
 - Third employee was suspended in May 2022. Suspension was extended in August 2022 which remained valid until finalisation of the disciplinary process against the employee in June 2023.
 - The AO developed a new standard operating procedure for changing banking details to prevent a re-occurrence. Change of banking details will be approved by the chief financial officer or delegated official on the financial management system.
 - A third person who is not employed by the municipality was found to have sent a fraudulent request to the municipality for payments to be made to an account that does not belong to any of the service providers of the municipality.
 - The AO opened a criminal case with the South African Police Service in October 2022. The accused pleaded guilty in February 2023 and was sentenced to six years imprisonment wholly suspended for five years on condition that he is not convicted of committing the same offence. In light of the sentence imposed against the party not

employed by the municipality, the AO requested and obtained copies of court and transcripts in June 2023. The AO decided not to re-open the case upon assessment of the court transcript as no new information was discovered.

- Due to the irregularities identified in the sharing of the outcome of the disciplinary hearing with all affected parties, the AO had initiated a digital forensic investigation to determine circumstances that led to the leaking of the chairperson's verdict. However, per the advice of the disciplinary board, the AO has decided not to proceed with the forensic investigation as the criminal case is still on-going.
- AO has shared inconsistencies identified in the oral evidence given by the third employee with the investigating officer for possible re-opening of the case. The assessment of inconsistencies identified in the oral evidence given by the third employee is still on going.
- In June 2023, the chairperson ruled that the third employee is not guilty of charges brought against him. The AO filed papers with the Labour court in October 2023 to appeal the ruling of the chairperson against the third employee. The Labour court appeal is still on-going.
- On-going criminal case will determine appropriate steps for the recovery of the financial loss suffered by the municipality.

49. All actions required to address an MI have been taken.

Payments made to incorrect bank accounts

50. The municipality made transfers to bank accounts that do not belong to the municipality in August 2021 and September 2021 due to ineffective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds as required by section 65(2)(a) of the MFMA.

51. The non-compliance is likely to result in a material financial loss of R7 million for the municipality if not recovered. The financial loss is disclosed in note 55 to the 2021-22 annual financial statements

52. The accounting officer was notified of the material irregularity on 19 May 2023 and invited to make a written submission on the actions taken that will be taken to address the matter.

53. The accounting officer has taken the following actions to address the material irregularity:

- The municipality received a payment of R4, 5 million in August 2022 from the bank that payments were made from.
- A criminal case was opened in September 2021. The criminal case is still on-going.
- The bank account from which payments were made from was closed in the 2022-23 financial year.

- Issued a letter of demand in October 2023 to the bank to pay the remaining financial loss of R2 500 000 within fourteen business days. The bank responded to the letter of demand in November 2023 indicating that they will not be paying the remaining financial loss as they believe the municipality is responsible for the remaining financial loss. The bank further indicated their intention to defend the matter if the municipality decides to pursue the matter further.
- Summons were served to the bank in February 2024. The bank filed their intention to defend in March 2024 and the case is still on-going
- An investigation finalised in January 2022 by an external service provider concluded that mails sent to the bank requesting transfer of funds were fraudulent. As a result, no one at the municipality could be held accountable for mails sent to the bank requesting transfer of funds.
- To prevent a re-occurrence, the AO updated the investment policy to ensure that transfer requests sent to banks are authorised by the AO and can only be processed by banks after confirmation with the AO. The updated investment policy was approved by council in April 2024.

54. All actions required to address an MI have been taken.

Johannesburg

30 November 2024



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 the selected development priority 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.

From the matters communicated to those charged with governance, I determine those matters that were of most significance in the audit of the financial statements for the current period and are therefore key audit matters. I describe these matters in this auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in this auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest of such communication.

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	Sections: 1, 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 28(1), 29(1), 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), Sections: 32(2)(b), 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e), 64(2)(f), Sections: 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2), 126(1)(a), Sections: 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations: 71(1)(a), 71(1)(a)(b), 71(2)(a), 71(2)(b), 71(2)(d), 72(a), 72(b), 72(c)
MFMA: Municipal Investment Regulations, 2005	Regulations: 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations: 5(4), 6(8)(a), 6(8)(b), 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2017	Regulations: 5, 12(1)(c), 12(3), 13(b), 13(c), 16(a), 17(1)(a), 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e),

Legislation	Sections or regulations
	Regulations: 28(1)(a)(i), 29(1)(a), 29(1)(b), 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), Regulations: 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)
Construction Industry Development Board Act 38 of 2000	Section: 18(1)
Construction Industry Development Board Regulations, 2004	Regulations: 17, 25(7A)
Division of Revenue Act	Sections: 11(6)(b), 12(5), 16(1); 16(3)
Municipal Property Rates Act 6 of 2004	Section: 3(1)
Municipal Systems Act 32 of 2000	Sections: 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 34(a), 34(b), 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), Sections: 54A(1)(a), 56(1)(a), 57(2)(a), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 96(b)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations: 5(2), 5(3), 5(6), 8(4)
MÁS: Municipal Planning and Performance Management Regulations, 2001	Regulations: 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 7(1), 8, 9(1)(a), 10(a), 12(1), 15(1)(a)(i), 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers Directly Accountable to Municipal Managers, 2006	Regulations: 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations: 17(2), 36(1)(a)
MSA: Municipal Staff Regulations	Regulations: 7(1), 31
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section: 34(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections: 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations: 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), 7(1), 7(2), 7(3), 7(6), 7(8), 8(2), 8(5), 9(1), 10(1), 10(2), Regulations: 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations: 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)

