



Audit Report

Maruleng Local Municipality 30 June 2021



AUDITOR-GENERAL
SOUTH AFRICA

Report of the auditor-general to Limpopo provincial legislature and the council on Maruleng Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Maruleng Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2021, the 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 Maruleng Local Municipality as at 30 June 2021, and its financial performance and cash flows for the year then ended in accordance with Standards of General Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003 (MFMA) and Division of Revenue Act, 2020 (Act no 4 of 2020) (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 auditor-general's responsibilities 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 42 to the financial statements, the municipality is the defendant in various lawsuits amounting to R9 581 460. The municipality is opposing these claims as it believes it has reasonable grounds of defending it. The ultimate outcome of these matters cannot presently be determined and no provision for any liability that may result was made in the financial statements.

Restatement of corresponding figures

8. As disclosed in note 50 to the financial statements, the corresponding figures for 30 June 2020 have been restated as a result of an error discovered in the financial statements of the municipality at, and for the year ended, 30 June 2021.

Unauthorised, irregular and fruitless and wasteful expenditure

9. As disclosed in note 43 to the financial statements, irregular expenditure, unauthorised expenditure and fruitless and wasteful expenditure of R75 368 635, R18 665 177 and R2 830 247 respectively that was incurred in the previous years was still under investigation.

Material losses/ impairments – trade debtors

10. As disclosed in note 4, note 5 and note 7 to the financial statements, material impairments of R5 004 008, R134 842 507 and R29 039 428 was incurred as a result of impairment of irrecoverable receivables from exchange transactions, receivables from non-exchange transactions and other receivables respectively.
11. As disclosed in the financial statements, material losses of R823 220 was incurred as a result of a write-off of irrecoverable debtors.

Other matters

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

Unaudited supplementary schedules

13. The supplementary information set out on pages 82 to 84 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

Unaudited disclosure notes

14. 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

15. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of GRAP, 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.

16. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

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

17. 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.
18. 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

Introduction and scope

19. 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 priority presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
20. 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 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.
21. 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 priority presented in the municipality's annual performance report for the year ended 30 June 2021:

[Programmes/ objectives/ development priorities]	Pages in the annual performance report
KPA 2 Basic service delivery	59 - 67

22. 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.

23. The material findings in respect of the reliability of the selected development priority are as follows:

KPA 2: Basic service delivery

Various indicators

24. The achievements reported in the annual performance report materially differed from the supporting evidence provided for the indicators listed below:

Indicators	Reported Target
Number of indigents households with access to free basic electricity	3700
Number of km municipal roads and bridges maintained	328.68KM
Number of households with basic waste removal/collection	20020

Various indicators

25. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of two of the 43 indicators relating to this programme. This was due to the lack of accurate and complete records. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report for the indicators listed below:

Indicators	Reported Target
Number of indigent households with access to free basic refuse removal	17955
Number of commercial, institutional and industrial centres with access to solid waste removal services	73 business establishments

Other matters

26. I draw attention to the matters below.

Achievement of planned targets

27. Refer to the annual performance report on pages 59 to 67 for information on the achievement of planned targets for the year and management's explanations provided for the under/over

achievement of targets. This information should be considered in the context of the material findings on the reliability of the reported performance information in paragraphs 24 and 25 of this report.

Adjustment of material misstatements

28. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of KPA 2 Basic service delivery. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

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 [type of auditee]'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, performance and annual reports

31. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA.

Material misstatements of disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and/or the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Strategic planning and performance management

32. The performance management system and related controls were inadequate as it did not describe how the performance monitoring should be managed, as required by municipal planning and performance management regulation 7(1). Misstatements relating to the reported performance information were identified due to performance reports not adequately supported by reliable evidence.

Expenditure management

33. Reasonable steps were not taken to prevent irregular expenditure and fruitless and wasteful expenditure amounting to R52 330 301, as disclosed in note 43 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 non-compliance with supply chain management regulation and processes.

34. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R192 757, as disclosed in note 43 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 on late submission and payment to suppliers

Other information

35. 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 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.
36. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.
37. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected programme presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
38. 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

39. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.
40. The municipality did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.
41. The accounting officer did not review and monitor compliance with legislation. Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored.

Other reports

42. I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
43. An internal investigation was performed on an allegation of gross misconduct and gross negligence at the request of the municipality, which covered the period 28 November 2018 to 5 November 2019. The investigation was concluded on 20 March 2020, however the report is currently subject to an independent review process at the Labour Court. These proceedings were in progress at the date of this auditor's report.

Auditor-General
Polokwane

30 November 2021



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected development priority and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the 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 by the accounting officer
 - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the Maruleng Local Municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease operating as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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.