

Report of the auditor-general to Limpopo provincial legislature and the council of 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 2022, 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 2022, 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 56 of 2003 (MFMA) and Division of Revenue Act 9 of 2021 (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 39 to the financial statements, the municipality is the defendant in various lawsuits. The municipality is opposing these claims as it believes it has reasonable grounds of defending it. 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.

Restatement of corresponding figures

8. As disclosed in note 47 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2022.

Unauthorised, irregular and fruitless and wasteful expenditure

9. As disclosed in note 40 to the financial statements, irregular expenditure, unauthorised expenditure and fruitless and wasteful expenditure of R127 698 936, R35 144 088 and R3 023 004 respectively, that was incurred in the previous years was still under investigation.

Material impairments

10. As disclosed in notes 4, note 5 and note 7 to the financial statements, material impairments of R5 208 532, R150 531 248 and R238 967 231 was incurred as a result of impairment of irrecoverable receivables from exchange transactions, receivables from non-exchange transactions and other debtors respectively.

Other matters

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

Unaudited supplementary schedules

12. The supplementary information set out on pages 82 to 87 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

13. 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

14. 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.
15. 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

16. 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.
17. 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

18. 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.
19. 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.
20. 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 2022:

Development priority	Pages in the annual performance report
KPA 2 Basic service delivery and infrastructure	xx -xx

21. 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.

22. I did not identify any material findings on the usefulness and reliability of the reported performance information for this development priority:

- KPA 2 Basic service delivery and infrastructure

Other matters

23. I draw attention to the matters below.

Adjustment of material misstatements

24. 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 and infrastructure. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

25. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the municipality's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
26. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements, performance and annual reports

27. 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 non-current assets and 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

28. 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

29. Reasonable steps were not taken to prevent irregular expenditure amounting to R80 124 242, as disclosed in note 40 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.
30. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R795 597, as disclosed in note 40 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

Procurement and contract management

31. Some of the invitation to tender for procurement of commodities designated for local content and production, did not stipulated the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2).
32. Awards were made to providers who were in the service of the municipality and whose directors /principal shareholders are 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). Similar non-compliance was reported in the previous year and the municipality did not take disciplinary action against the suppliers / ward committee officials involved.
33. 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. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM Regulation 38(1).
34. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, the code of conduct for councillors issued in terms of the Municipal Systems Act 32 of 2000.

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 priority presented in the annual performance report that have been specifically reported in the 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 development priority 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 basis for the opinion, 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 at the Labour Court. These proceedings were in progress at the date of this auditor's report.

Auditor-General

Polokwane

30 November 2022



A U D I T O R - G E N E R A L
S O U T H A F R I C A

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 [type of auditee] 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.
4. 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.