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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Makhado Local Municipality set out on pages … to …, which comprise the statement of financial position as at 30 June 2022, the statement of financial performance, statement of changes in net assets, cash flow statement, appropriation statement and the statement of comparison of budget information with actual information 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 Makhado local municipality as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with 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 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.

Material losses - electricity

7. As disclosed in note 54 to the financial statements, material electricity losses of R25 107 383 (2021:R 24 122 747) were incurred, which represent 11% (2021: 11%) of the total electricity purchased.

Material impairments

8. As disclosed in note 37 to the financial statements, material losses of R79 464 580 was incurred as a result of an impairment of irrecoverable debtors.

An uncertainty relating to the future outcome of litigations

9. With reference to note 45 to the financial statements, the municipality is the defendant in various lawsuits. The municipality is opposing these claims, as it believes that the claims have no basis. The ultimate outcome of the matters could not be determined and no provision for any liability that may result was made in the financial statements.

Other matters

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

Unaudited supplementary schedules

11. The supplementary information as set out on pages xx to xx 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

12. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose the particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of financial statements and, accordingly, I do not express an opinion on it.

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

Auditor-general's responsibilities 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

Introduction and scope

17. 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.

18. 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.

19. 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 priorities	Pages in the annual performance report
KPA 2 – Basic service delivery	5 – 12

20. 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.

21. The material findings on the usefulness and reliability of the performance information of the selected development priorities are as follows:

KPA 2 – Basic service deliver

Percentage completion of Kruger street (resurfacing and paving)

22. The reported target 100% completed Kruger street by 30 June 2022 did not agree with the planned indicator of 100% completed Kruger street by 30 June 2021.

Rehabilitation of Djunane street (Waterval)

23. The source information for achieving the planned indicator was not clearly defined.

Other matters

24. I draw attention to the matters below.

Achievement of planned targets

25. Refer to the annual performance report on pages 5 to 12 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 usefulness and reliability of the reported performance information in paragraphs 21 and 22 of this report.

Adjustment of material misstatements

26. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information of Basic Service Delivery. As management subsequently corrected only some of the misstatements, I raised material findings on the 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

27. 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.

28. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

29. 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, current assets, liabilities, and revenue, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Strategic planning and performance management

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

31. The infrastructure development plan (IDP) did not reflect the key performance indicators and targets as required by sections 26 (i) of the Municipal Systems Act 32 of 2000 and municipal planning and performance management regulation 2(1)(e).

Consequence management

32. Losses resulting from fruitless and wasteful expenditure were not recovered from the liable person, as required by section 32(2)(b) of the MFMA and municipal budget and reporting regulations 75(2).

Asset management

33. An effective system of internal control for assets (including an adequate asset register) was not in place, as required by section 63(2)(c) of the MFMA.

Other information

34. 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 this auditor's report.

35. 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.

36. 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.

37. 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

38. 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.

39. The accounting officer did not sufficiently exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

40. Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information.

41. Management did not adequately review and monitor compliance with applicable laws and regulations.

Material irregularities

42. 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 the material irregularities reported in the previous year's auditor's report.

Material irregularities identified during the audit

Prohibited investment with a mutual bank not registered un terms of the Banks Act 94 of 1990 (Banks Act): Venda Building Society (VBS) Mutual Bank

43. In the audit report dated 13 December 2022, we reported on a material irregularity (MI) incurred by the municipality. The details of this MI were as follows:

44. The municipality made investments since 12 of February 2015 with VBS. At the time (12 March 2018) of placing VBS under curatorship, the municipality had investments amounting to R62 734 416 including interest.

45. The municipality received a letter from the curator of VBS on 12 March 2018 informing them that VBS mutual bank is under curatorship and that all deposits with VBS are frozen until such time the bank is in a position to repay these deposits.

46. In terms of regulation 6 of the municipal investment regulations, a municipality may only invest deposits with banks registered in terms of the Bank Act. The municipality did not comply with municipal investment regulations, as VBS is not registered in terms of the Bank Act.

47. This non-compliance is likely to result in a financial loss for the municipality if the amount invested is not recovered in full from the estate of VBS.

48. The accounting officer was notified of the material irregularity on 9 November 2021 and invited to make a written submission on the actions taken and that will be taken to address the matter. The accounting officer responded on 23 December 2021, and the following actions have been taken to address the material irregularity:

- The municipal managers' contract expired prior VBS Investigation and the council had no powers to discipline him.
- CFO has resigned to join another Municipality and the council had no powers to discipline her.
- The municipality has lodged a claim with the curator as a creditor on 6 November 2019 in the Polokwane High Court before the master of the high court.
- We confirm that the municipality has developed an investment policy which complies with Gazette no. 27431 for MFMA and municipal investment regulation.
- The municipality put adequate controls in place to improve Investment management.
- The municipality has received an amount of R4 391,409 from curator/ liquidator as part of recovery process and the municipality is eagerly waiting for the finalisation of curatorship process. The municipality continues to be registered with the curator for furthered recoveries.
- There is ongoing investigation by the Directorate for Priority Crime, investigations into the VBS matter: DPCI National Head Office Enquiry 06/01/2019.The investigation started on 6 January 2019.The municipality awaits the outcomes of the investigation.

49. I will follow up on the material irregularity during my next audit.

Auditor - General

Polokwane

30 November 2022