

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 2023, the statement of financial performance, statement of changes in net assets, cash flow statement, appropriation statement and the 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 Makhado Local 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 of 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.

Material losses- electricity

7. As disclosed in note 39 to the financial statements, material electricity losses of R32 725 648 (2021-2022: R36 624 559) was incurred, which represents 11% (2021-2022: 12%) of total electricity purchased.

Material impairments

8. As disclosed in note 38 to the financial statements, material losses of R 50 881 155 were incurred as a result of an impairment of irrecoverable debtors.

An uncertainty relating to the future outcome of litigations

9. With reference to note 47 to the financial statements, the municipality is the defendant in various lawsuits. The municipality is opposing these claims, as it believes that the claims are unfounded. 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 matter

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

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 particulars of non-compliance with the MFMA in the financial statements. This disclosure requirements 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

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.

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 key performance areas presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
18. I selected the following key performance areas presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected performance areas that measure the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

Key performance area	Page numbers	Objective
Basic service delivery	[XX]	Accessible basic and infrastructure services
Local economic development	[XX]	Invest in local economy

19. I evaluated the reported performance information for the selected performance areas 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 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 selected key performance areas.

Other matters

23. I draw attention to the matters 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. This information should be considered in the context of the material findings on the reported performance information.

25. The municipality plays a key role in delivering services to South Africans. The table that follows provides information on the achievement of planned targets and list the key service delivery indicators that were not achieved as reported in the annual performance report. The measures taken to improve performance are included in the annual performance report on pages [xx to xx].

Basic services delivery

<i>Targets achieved: 72.92%</i> <i>Budget spent: 71.84%</i>		
Key service delivery indicator not achieved	Planned target	Reported achievement
Number of households serviced with electricity post connections	282 households serviced with electricity post connections by 30 June 2023	245 households serviced with electricity post connections
Number of high mast lights installed	37 high mast lights installed by 30 June 2023	29 high mast installed but not energised
Upgraded Emmarentia and Boom Park Substations	Upgrade of Emmerentia and Boom Park Substation by 30 June 2023	Upgrade of Emmarentia and Boom Park substation not completed. -Procurement of equipment underway

Upgraded Breakers at Levubu and Beaufort substation	Upgrading of Levubu and Beaufort substation breakers completed by 30 June 2023	Upgrading of Levubu and Beaufort Substation breakers not completed -Procurement of equipment underway
Installation of new transformers at central main substation	Installation of new transformers at central main substation completed by 30 June 2023	Installation of new transformers at central main substation not completed. -procurement of equipment underway
Number of electricity poles replaced	650 electricity poles replaced by 30 June 2023	650 electricity poles not replaced. Services provider allocated and site handover
Upgraded Main substation (breakers, panels, isolators, current transformers, surge arrestors)	Upgraded Main substation (breakers, panels, isolators, current transformers, surge arrestors) completed by 30 June 2023	Upgrading of main substation not completed Breakers, isolators supplied
Number of indigents with access to free electricity	4250 indigents with access to free electricity by 30 June 2023	3855 indigents with access to free electricity
Number of wheelie bins purchased	1000 x 240L wheelie bins purchased by 30 June 2023	Only 200 X 240L wheelie-bins were purchased and delivered
Percentage completion of construction of a Mega Cell and Stormwater at Makhado Landfill site	70% completion of constructed of Mega Cell and Stormwater at Makhado Landfill site by 30 June 2023	52% completion of constructed of Mega Cell and Stormwater at Makhado Landfill site
Refurbished change rooms, grandstand, and ablution facilities at Rabali stadium	Refurbished change rooms, grandstand and ablution facilities completed at Rabali stadium by 30 June 2023	Refurbished change rooms, grandstand and ablution facilities at Rabali stadium not completed. Only removal of existing rooms was completed
Percentage completion of installed gym equipment at Dzanani Park	100% completion of installed gym equipment at Dzanani Park by 30 June 2023	93% Percentage completion of installed gym equipment at Dzanani Park
Percentage completion of constructed Makhado Licencing and testing Admin block	100% completion of constructed Makhado Licencing and testing Admin block by 30 June 2023	98% completion of constructed Makhado Licencing and Testing Admin Block

Local Economic development

Targets achieved: 50%		
Budget spent: 100%		
Key service delivery indicator not achieved	Planned target	Reported achievement
Number of LED projects supported	6(six) projects supported by 30 June 2023	6(six) projects not supported SLA signed

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 prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of disclosure item identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

The annual financial statements were not submitted to the Auditor-General, for auditing, within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.

Other information in the annual report

31. The accounting officer is responsible for the other 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 key performance areas presented in the annual performance report that have been specifically reported in this auditor's report.
32. 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.
33. 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 key performance areas presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
34. 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

35. 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.
36. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the opinion and the material findings on compliance with legislation included in this report.
37. The accounting officer did not implement adequate internal controls to ensure the preparation of accurate financial statements as material misstatements were identified, though subsequently corrected.
38. The accounting officer did not adequately review and monitor compliance with applicable laws and regulations.
39. The accounting officer did not sufficiently exercise oversight responsibility regarding financial and compliance reporting and related internal controls.

Material irregularities

40. 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

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

41. In the audit report dated 13 December 2021, we reported on a material irregularity (MI) incurred by the municipality. The details of this MI were as follows:
42. 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.
43. 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.
44. 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.
45. 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.
46. 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 the VBS investigation and the council had no powers to discipline him.
 - The CFO has resigned to join another municipality and the council had no powers to discipline her.
 - The municipality 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 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 the management of investments.
 - The municipality received an amount of R4 391409 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 further recoveries.

47. I received a written submission on the actions taken to address the MI on 26 October 2022. I considered the representations made and the substantiating documents provided and have concluded that appropriate actions have been taken to address the material irregularity. Therefore, I will not pursue this matter any further.

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 separate financial statements and the procedures performed on reported performance information for selected key performance area and on the Municipality's compliance with selected requirements in key legislation.

Financial statements

In addition to my responsibility for the audit of the separate financial statements as described in this auditor's report, I also:

- identify and assess the risks of material misstatement of the separate 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 controls.
- 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 separate 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 separate financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the separate 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 the Municipality to cease operating as a going concern
- evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and determine whether the separate financial

statements represent the underlying transactions and events in a manner that achieves fair presentation

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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
Municipal Finance Management Act 56 of 2003	Section 1 - Paragraph (a), (b) & (d) of the definition: irregular expenditure, Section 1 - Definition: service delivery and budget implementation plan, Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1), Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), Sections 32(6)(a), 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), Sections 62(1)(f)(ii), 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), Sections 64(2)(c), 64(2)(e), 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), Sections 72(1)(a)(ii), 112(1)(j), 116(2)(b), 116(2)(c)(ii), 117, 122(1), Sections 122(2), 126(1)(a), 126(1)(b), 127(2), 127(5)(a)(i), 127(5)(a)(ii), Sections 129(1), 129(3), 133(1)(a), 133(1)(c)(i), 133(1)(c)(ii), 170, Sections 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations 71(1), 71(2), 72
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), 13(c)(i), 16(a), 17(1)(a), Regulations 17(1)(b), 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), Regulations 27(2)(e), 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a), 29(1)(b), Regulations 29(5)(a)(ii), 29(5)(b)(ii), 32, 36(1), 36(1)(a), 38(1)(c), Regulations 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), 38(1)(g)(ii), 38(1)(g)(iii), 43, Regulations 44, 46(2)(e), 46(2)(f)
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 29(1)(b)(ii), 29(3)(b), 34(a), 34(b), Sections 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, 43(2), 56(a), 57(2)(a), Sections 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), 67(1)(d), 74(1), 93J(1), 96(b)

Legislation	Sections or regulations
MSA: Municipal Planning and performance Management Regulations, 2001	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(6)(a), 7(1), 8, 9(1)(a), 10(a), Regulations 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: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Section 11(6)(b), 12(5), 16(1); 16(3)
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations	Regulations 17, 25(7A)
Municipal Property Rates Act 6 of 2004	Section 3(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), Regulations 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)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)