

Report of the auditor-general to Limpopo Provincial Legislature and council on Polokwane Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Polokwane Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2024, 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 Polokwane Local Municipality as at 30 June 2024 and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Practice (GRAP) and the requirements of the Municipal Finance Management Act of South Africa 56 of 2003 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.

Material impairments

7. As disclosed in note 3 and 5 to the financial statements, material impairment of R R957 208 613 (2023: R931 602 895) were provided for as a result of irrecoverable debtors.

Water losses

8. As disclosed in note 41.2 to the financial statements, material water losses of R68 506 297 (2023: R87 443 128) was incurred, which represents 24% (2023: 36%) of total water purchased. The water losses were due to leakages and service connections.

Electricity losses

9. As disclosed in note 41.1 to the financial statements, material water losses of R124 401 394 (2023: R61 524 449) was incurred, which represents 12.22% (2023: 10.42%) of total electricity purchased. The electricity losses were mainly due illegal connections.

Contingencies

10. As disclosed in note 53 to the financial statements, the municipality is a defendant in multiple lawsuits. The ultimate outcome of these matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

11. As disclosed in note 63 to the financial statements, the corresponding figures for 30 June 2023 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2024.

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 schedule set out on pages xx to xx does not form part of the financial statement and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

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 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 the 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.

Responsibilities of the auditor-general 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. This description, which is located at page 8, forms part of our auditor's report.

Report on the audit of the annual performance report

18. 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 objectives presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
19. I selected the following objectives presented in the annual performance report for the year ended 30 June 2024 for auditing. I selected development priorities 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]	Provide basic services to the citizens
Local economic development	[XX]	Stimulate economic development within the municipality

20. I evaluated the reported performance information for the selected development priorities 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.
21. 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
- there is adequate supporting evidence for the achievements reported and for the reasons provided for any over- or underachievement of targets / measures taken to improve performance

22. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.

Development priority: Basic service delivery

Increase percentage of households with access to electrification by 0.50%

23. An achievement of 0, 49% was reported against a target of 0.5%. I could not determine if the reported achievement was correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

Increase % of households with access to water by 0.40%

24. An achievement of 1.25% was reported against a target of 0.40%. I could not determine if the reported achievement was correct, as adequate supporting evidence was not provided for auditing. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

Number of fire services inspection conducted

25. An achievement of 1526 was reported against a target of 988. However, the audit evidence did not support this achievement. I could not determine the actual achievement, but I estimated it to be materially more than reported. Consequently, it is likely that the target was still achieved.

Other matters

26. I draw attention to the matters below.

Achievement of planned targets

27. The annual performance report includes information on reported achievements against planned targets and provides explanations for over or under achievements. This information should be considered in the context of the material findings on the reported performance information.
28. The tables 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 reasons for any underachievement of targets are included in the annual performance report on pages [xx to xx].

Basic service delivery

<i>Targets achieved: 62%</i>		
Key service delivery indicator not achieved	Planned target	Reported achievement
BSD_TL03 Increase percentage of Households with access to electrification by 0.50% (1247 hh) by the 30 June 2024	0.5% (1247 hh)	0.49% (1216 hh)
BSD_TL04 Increase percentage of Households with access to sanitation by 1.75% (4365 hh) by 30 June 2024	1.75% (4365 hh)	0.68% (1705 hh)
BSD_TL06- Km of roads upgraded from gravel to tar by 30 June 2024	15km	6.18 km
BSD_TL08 Number of new rural villages supplied with weekly waste removal services by 30 June 2022	8	0
BSD_TL12 Km of trunk route constructed by 30 June 2022	1km	0
BSD_TL15 % of building plans received and assessed within 60 working days from receipt of application	100%	66%
BSD_TL16 % of occupation certificate application received and finalised within 30 days	100%	63.06%
BSD_TL22 Percentage reduction of electricity losses by 30 June 2024	12%	12.22%

Local economic development

<i>Targets achieved: 80%</i>		
Key service delivery indicator not achieved	Planned target	Reported achievement
Number of Job opportunities created through EPWP by 30 June 2023 (Temporary job opportunities)	3 665	3 284

Material misstatements

29. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information development priority: basic service delivery did not correct all of the misstatements, and I reported material findings in this regard.
30. I did not identify any material misstatement on the local economic development objective.

Report on compliance with legislation

31. 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.
32. 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.
33. 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.
34. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements, performance and annual report

35. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 122(1) of the MFMA.
36. Material misstatements of non-current assets and disclosures identified by the auditors in the submitted financial statements were corrected, resulting in the financial statements receiving an unqualified audit opinion.

Strategic planning and performance management

37. The performance management system and related controls were inadequate as it did not describe how the performance monitoring, review and reporting processes should be conducted and/or managed, as required by municipal planning and performance management regulation 7(1).

Procurement and contract management.

38. Sufficient appropriate audit evidence was not obtained that some contracts were awarded in accordance with the legislative requirements.

39. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of the code of conduct for staff members issued in terms of the Municipal Systems Act 32 of 2000

40. 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 supply chain management (SCM) regulation 44.

41. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2) (b) of the MFMA.

Expenditure Management

42. Reasonable steps were not taken to prevent irregular expenditure amounting to R1 375 399 743 as disclosed in note 54.2 to the annual financial statements, as required by section 62(1)(d) of the MFMA.

Other information in the annual report

43. The accounting officer is responsible for the other information included in the annual report which includes the audit committee's report. The other information referred to does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported on in this auditor's report.

44. 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.

45. 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 objectives presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

46. 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

47. 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.
48. The matters reported below are limited to the significant internal control deficiencies that resulted in the material findings on the financial statements and the annual performance report that were subsequently corrected and the material findings on compliance with legislation included in this report.
49. Internal control systems for the preparation and review of the financial statements did not operate optimally as they were unable to detect and correct or prevent material misstatements in the financial statements submitted for audit.
50. Leadership did not exercise adequate oversight over performance reporting to ensure that internal control measures for the collection, collation, validation and reporting of performance information are effective to produce performance information that is reliable.

Material Irregularities

51. 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.

Material irregularities in progress

52. I identified a material irregularity during the audit and notified the accounting officer, as required by material irregularity regulation 3(2). By the date of this auditor's report, the response by the accounting officer was not yet due. This material irregularity will be included in next year's auditor's report.

Status of previously reported material irregularities

Payment for buses not received

53. In terms of MFMA section 116 (2)(a), the accounting officer of a municipality must take all reasonable steps to ensure that a contract or agreement procured through the supply chain management policy of the municipality or municipal entity is properly enforced.
54. The municipality paid R16 680 257 in 2019 for buses which they did not receive. This resulted in non-compliance with section 116 2(a) of the MFMA in which the accounting officer did not take reasonable steps to ensure that a contract or agreement procured through the supply chain management policy of the municipality is properly enforced. This non-compliance resulted in a material financial loss amounting to R16 680 257.
55. The accounting officer was notified of the material irregularity on 9 December 2022 and the following actions were taken to address the material irregularity:
- The municipality appointed a service provider (law firm) on 26 January 2023 to investigate the matter. The investigation was completed on 23 March 2023. The municipality is currently implementing the recommendations from the investigation report.
 - The supplier was placed under business rescue on 18 August 2021.
 - The municipality started negotiations with the business rescue practitioners on 16 January 2023 with the objective to obtain the buses. The negotiations with the business rescue practitioners were not successful therefore the municipality referred the matter to court with case number 9242/2024
 - The accounting officer appointed a legal representative to initiate legal action in order to recover the money that was paid for the buses. The letters of demand were successfully served to the affected employees on 22 September 2024. The implicated individuals that are still employed by the municipality are undergoing disciplinary hearing which commenced on 19 November 2024 and expected to be completed in March 2025. I will follow up on the outcome of the disciplinary hearing during my next audit.

Auditor - General

Polokwane

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 selected development priorities 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.

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Supply Chain Management Regulation GNR.868 of 2005	<ul style="list-style-type: none"> • SCM reg. 12(1)(c), 16(a), 17(a), (b) & (c) • SCM reg. 13(c) • SCM reg. 43 • SCM reg. 19(a) & (b); • SCM reg. 36(1)(a) • SCM reg. 12(3) • SCM reg. 27(2)(a) & (e) • SCM reg. 22(1)(b) & 22(2) • SCM reg. 29(1)(a) & (b) • SCM reg. 29(5)(a)(ii) & (b)(i) • SCM reg. 38(1)(c.), (d)(ii) & (g)(iii) • SCM reg 38(1)(e.), (g)(i) & (ii) • SCM reg. 32 • SCM reg. 44
Municipal Finance Management Act 56 of 2003	<ul style="list-style-type: none"> • MFMA section 117 • MFMA section 116(2)(b) • MFMA section 112(1)(j) • MFMA 122(1) • MFMA 126(1)(a) • MFMA 133(1)(a), (c)(i) & (ii) • MFMA 127(2), (5)(a)(i) & (ii) • MFMA 129(1), (3) • MFMA 63(2)(a) & (c) • MFMA 13(2) • MFMA 14(1), (2)(a) & (b) • MFMA 65(2)(e), (a) & (b) • MFMA 11(1) • MFMA 62(1)(d) • MFMA 15 • MFMA 29(1) & (2)(b) • MFMA 62(1)(f)(i) & (iii) • MFMA 64(2)(b), (c), (e), (f) & (g) • MFMA 53(1)(c)(ii) • MFMA 1 • MSA 34(a) and 41(1)(c)(ii) • MFMA 24(2)(c)(iv) • MFMA 54(1)(c) • MFMA 32(2)(a), (a)(ii) & (b) • MFMA 170 • MFMA 32(6)(a) • MFMA 171(4)(a)
Preferential Procurement Policy Framework Act 05 of 2000	<ul style="list-style-type: none"> • PPPFA sec 2(1)(a); • PPPFA section 2(1)(f)

Legislation	Sections or regulations
Preferential Procurement Regulation 2017 and 2022	<ul style="list-style-type: none"> • PPR 2017 6(1) and 7(1) • PPR 2022 4(1) and 5(1) • PPR 2017 6(8), 7(8), 10(1) & (2) & 11(1) • PPR 2022 4(4) & 5(4) • PPR 2017 5(1) & 5(3) • PPR 2017 5(6) • PPR 2017 9(1)
Construction Industry Development Board Act 38 of 2000	<ul style="list-style-type: none"> • CIDB Act section 18(1) • CIDB reg. 17; • CIDB reg. 25(7A)
Municipal Investment Regulation GNR.308 of 1 April 2005	<ul style="list-style-type: none"> • Municipal investment regulation 3(3) • Municipal investment regulation 6 • Municipal investment regulation 7 • Municipal investment regulation 12(2)
Division of Revenue Act 5 of 2022	<ul style="list-style-type: none"> • DoRA 16(1) & (3) • DoRA 12(5)
Municipal Investment Regulation GNR 308 of 1 April 2005	<ul style="list-style-type: none"> • Municipal budget and reporting regulation 71(1) & (2) • Municipal Budget & Reporting reg 75(2)
Municipal System Act 32 of 2000	<ul style="list-style-type: none"> • MSA 74(1) • MSA 96(b) • MSA 29(1)(b)(ii) & (3)(b) • MSA 42 • MSA 25(1) • MSA 26(a) & (c) • MSA 41(1)(a), • MSA sec. 43(2), • MSA 34(a) & (b) and 41(1)(c)(ii) • MSA 38(a) • MSA 57(6)(a) • MSA 56(a) • MSA 66(1)(a) & (b) • MSA 67(1)(d) • MSA 57(2)(a)
Municipal Property Rates Act 6 of 2004	Municipal Property Rates Act 3(1)
Municipal planning and Performance management regulation 2001	<ul style="list-style-type: none"> • Municipal planning and performance management reg 15(1)(a)(i) • Municipal planning and performance management reg 2(1)(e) • Municipal planning and performance management reg 2(3)(a) • Municipal Planning and Performance Management reg 9(1)(a) • Municipal Planning and Performance Management reg 10(a) • Municipal planning and performance management reg 12(1) • Municipal planning and performance management reg 3(4)(b) and 15(1)(a)(ii)

Legislation	Sections or regulations
	<ul style="list-style-type: none"> • Municipal planning and performance management reg and 3(6)(a) • Municipal planning and performance management regulation 3(3) • Municipal planning and performance management reg 8 • Municipal planning and performance management reg 7(1).
Municipal regulation on financial misconduct procedures and criminal proceeding GNR 430 of 30 May 2014	<ul style="list-style-type: none"> • Financial Misconduct reg 5(4) • Financial Misconduct reg 6(8)(a) • Financial Misconduct reg 10(1)

