Report of the auditor-general to Limpopo Provincial Legislature and the Council on Lephalale Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of Lephalale local municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2023, 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 Lephalale 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 Practices (Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2022 (DoRA).

Context 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 matter

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

Restatement of corresponding figures

7. As disclosed in note 54 to the financial statements the corresponding figures for 30 June 2022 were restated as a result of errors in the financial statements of the municipality at and for the year ended 30 June 2023.

Significant uncertainty

8. With reference to note 50 to the financial statements, the municipality is the defendant in multiple lawsuits. The municipality is opposing these claims. 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.

Material impairment

9. As disclosed in note 41 to the financial statements, a material impairment of R63 122 788 was made as a result of debt which recovery is doubtful due to an inadequate debt collecting system.

Other matter

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

Unaudited disclosure schedules

11. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliances with the MFMA in the financial statements. The 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

12. 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.

13. 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

14. 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.

15. 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

16. 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 development priorities presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

17. I selected the following development priorities presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected development priorities that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

Programme	Page numbers	Purpose
Programme - Social Services 5.6	XX	Focuses on social services and provision of basic services.
Programme - Infrastructure Services 5.7	XX	Focuses on infrastructure development, maintenance and provision of basic services.

18. 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.

19. 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 reasons provided for any over- or underachievement of targets/ measures taken to improve performance.

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

21. The material findings on the reported performance information for the selected development priorities are as follows:

Social services

22. We did not identify material findings on the completeness of indicators in this programme.

23. We did not identify material findings on the overall presentation of performance information in the annual performance report.

Infrastructure services

Various indicators

24. I could not determine if the reported achievements were correct, as some of the indicators reported as achieved could not be verified. Consequently, the achievements might be more or less than reported and were not reliable for determining if the targets were achieved. I was unable to further confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements.

Indicator	Target	Reported Achievement
ES 01 - Percentage of households connected with a basic level of electricity by Municipality on Eskom licensed area from 1 July 2022 to 30 June 2023	100%	94%
M218 - Number of Villages in which access roads are bladed	39 Villages Bladed	39 Villages Bladed
IWS 2 - Percentage of Marapong Bulk Water Supply pipeline completed.	100% Project completion	62% Project completion

Other matters

Achievement of planned targets

25. The annual performance report includes information on reported achievements against planned targets and provides explanations for over- or underachievement/ measures taken to improve performance. This information should be considered in the context of the material findings on the reported performance information.

26. The municipality plays a key role in delivering services to South Africans. The tables that follow provide information on the achievement of planned targets and lists 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.

Material misstatements

27. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for Social services Infrastructure. Management did not correct the misstatements and I reported material findings in this regard.

Report on compliance with legislation

28. 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.

29. 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.

30. 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.

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

Annual financial statements, performance and annual report

32. The annual financial statements submitted for audit were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.

    Material misstatements of current assets, non-current assets, revenue and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Human resource management

33. Financial interest was not disclosed by the municipal manager within 60 days from date of appointment, as required by regulation 36(1)(a) on appointment and conditions of employment of senior managers.

34. Senior managers were appointed without submitting proof of previous employment prior to signing employment contracts, as required by municipal performance regulations for municipal managers and managers directly accountable to municipal managers 4(4)(b).

Consequence management

35. Appropriate action was not taken against officials where investigations proved financial misconduct, as required by section 171(4)(b) of the MFMA and municipal regulations on financial misconduct procedures and criminal proceedings 6(8).

Expenditure management

36. Reasonable steps were not taken to prevent irregular expenditure amounting to R59 215 957 as disclosed in note 58 to the annual financial statements, as required by section 62(1)(d) of the MFMA and majority of the disclosed irregular expenditure was caused by non-compliance with SCM regulations.

Other information in the annual report

37. 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 development priorities presented in the annual performance report that have been specifically reported on in this auditor's report.

38. 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.

39. 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 development priorities presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

40. I did not receive the other information prior to the date of this 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 the auditor's report and re-issue an amended reported as appropriate. However, if the other information is corrected this will not be necessary.

Internal control deficiencies

41. 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.

42. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the opinion, the material findings on the annual performance report and the material findings on compliance with legislation included in this report.

43. The financial statements contained material misstatements which were subsequently corrected. This is mainly due to insufficient reviews by management and those charged with governance.

44. Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored. The accounting officer did not take reasonable steps to prevent irregular, expenditure.

45. The annual performance report contained material misstatements which were not corrected. This is mainly due to insufficient reviews performed on the annual performance report.

Other reports

46. I draw your attention to the following engagements conducted by various parties. 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.

47. During the year, investigations were conducted on fruitless and wasteful expenditure, irregular expenditure and unauthorised expenditure. The investigations were conducted to determine whether the fruitless and wasteful expenditure, irregular expenditure and unauthorised expenditure as disclosed in notes 56 - 58 to the financial statements, resulted in financial loss that can be recovered or non-compliance.

AUDITOR-GENERAL

Polokwane

14 December 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 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

- 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
Supply Chain Management Regulation GNR.868 of 2005	• 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	• 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 5 of 2000	• PPPFA sec 2(1)(a) • PPPFA section 2(1)(f)
Preferential Procurement Regulation 2017 and 2022	• PPR 2017 6(1) and 7(1)

Legislation	Sections or regulations
	• 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	• CIDB Act section 18(1) • CIDB reg. 17 • CIDB reg. 25(7A)
Municipal Investment Regulations GNR.308 of 1 April 2005	• 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	• DoRA 16(1) & (3) • DoRA 12(5)
Municipal Investment Regulation GNR 308 of 1 April 2005	• Municipal budget and reporting regulation 71(1) & (2) • Municipal Budget & Reporting reg 75(2) •
Municipal System Act 32 of 2000	• 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	• 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) • Municipal planning and performance management reg and 3(6)(a)

Legislation	Sections or regulations
	• 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	• Financial Misconduct reg 5(4) • Financial Misconduct reg 6(8)(a) • Financial Misconduct reg 10(1)