

Report of the auditor-general to Limpopo Legislature and the council of Elias Motsoaledi Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Elias Motsoaledi Local Municipality set out on pages x to x, 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 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 Elias Motsoaledi 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.

Restatement of the corresponding figures

7. As disclosed in note 40 to the financial statement, the corresponding figures for 30 June 2021 have been restated as a result of errors discovered in the financial statements of the municipality at, and for the year ended, 30 June 2022.

Significant uncertainties

8. As disclosed in note 37 to the financial statements, the municipality is the defendant in various lawsuits. The ultimate outcome of these matters cannot presently be determined and no provision for any liability that may result was made in the financial statements.

Material distribution losses

9. As disclosed in note 47 to the financial statement, material electricity losses of R20 519 274 (2021: R17 744 528) were incurred, which represents 21% (2021:20%) of total electricity purchased. The losses were as a result of technical losses caused by the distribution process of electricity as well as non-technical losses due to theft and vandalism.

Material impairment

10. As disclosed in note 31 to the financial statements, material impairment of R19 689 866 was incurred as a result of irrecoverable consumer debtors and traffic fine debtors.

Material under spending of conditional grants

11. As disclosed in note 16 to the financial statement, the municipality materially underspent conditional grants of R5 396 288 on integrated national electrification programme under key performance area basic service delivery and infrastructure development.

Other matter

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

Unaudited disclosure notes

13. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements 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 financial statements that are free from material misstatement, whether due to fraud or error.
15. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

16. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
17. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

18. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected key performance area presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
19. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
20. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected key performance area presented in the municipality's annual performance report for the year ended 30 June 2022:

Key performance area	Pages in the annual performance report
KPA 4 -Basic service delivery and Infrastructure development	21 – 38

21. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved

performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

22. The material findings on the usefulness and reliability of the performance information of the selected key performance area are as follows:

KPA 4: Basic service delivery and Infrastructure development

23. I was unable to obtain sufficient appropriate audit evidence that clearly defined the predetermined source information and method of collection or that related systems and processes were established to enable consistent measurement and reliable reporting of the actual achievement of the indicators listed below. This was due to a lack of measurement definitions and processes. I was unable to confirm that the indicator is well-defined and verifiable by alternative means. As a result, I was unable to audit the reliability of the achievements reported in the annual performance report of the listed indicators. There was also no clear and logical link on how these indicators will contribute to achieving the planned outcome or will measure the actual service delivery and the planned output to which they relate.

Indicator description	Annual target	Reported achievement
Waste removal in Groblersdal Hlogotlou Roosenekaal Motetema	Waste removal in Groblersdal Hlogotlou Roosenekaal Motetema by 30 June 2022	Waste removal in Groblersdal Hlogotlou Roosenekaal Motetema by 30 June 2022
Installation of pre-paid meters and vending system at Roosenekaal	Installation of pre-paid meters and vending system at Roosenekaal by end of March 2022	Installation of pre-paid meters and vending system at Roosenekaal by end of March 2022
Upgrading of Tafelkop stadium access road	Upgrading of Tafelkop stadium access road by 30 June 2022	Contractor busy with base and storm water pipe
Upgrading of Groblersdal landfill site	Zero weight	Zero weight
Upgrading of Bloompoot to Uitspanning Access Road	Upgrading of Bloompoot / Uitspanning access road by 30 June 2022	Contractor busy with base layers.
Construction of Motetema internal access streets	Zero weight	Zero weight
Upgrading of 2.2km of Dipakapakeng access road	2.2 km Upgrading of Dipakapakeng access road by 30 June 2022	0 km Upgrading of Dipakapakeng access road by 30 June 2022 (Layer works completed and base stabilised)

Other matters

24. I draw attention to the matters below.

Achievement of planned targets

25. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 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 KPA 4: Basic service delivery and infrastructure development. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and 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 and annual reports

29. The financial statements submitted for auditing were not fully prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.
30. The oversight report adopted by the council on the 2020-21 annual report was not made public, as required by section 129(3) of the MFMA.

Expenditure management

31. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R2 763 256, as disclosed in note 44 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by budget overspending on the community services vote.
32. Reasonable steps were not taken to prevent irregular expenditure amounting to R76 739 211 as disclosed in note 46 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by incorrect allocation of functionality points.

33. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R826 237, as disclosed in note 45 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by unauthorised debit orders.

Strategic planning and performance management

34. The performance management system and related controls were inadequate as it did not describe how the performance planning and measurement processes should be conducted, as required by municipal planning and performance management regulation 7(1).

Procurement and contract management

35. Some of the contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of supply chain management (SCM) regulations 21(b) and 28(1)(a)(i) and the preferential procurement regulations.
36. Some contracts above R30 million did not include a condition for mandatory subcontracting to advance designated groups, as required by the 2017 preferential procurement regulation 9(1).
37. Some of the invitations to tender for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2). This non-compliance was identified in the procurement processes for the appointment of panel of contractors, maximum of 10 for electrification projects.
38. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.
39. The contract performance and monitoring measures were not in place to ensure effective contract management, as required by section 116(2)(c)(ii) of the MFMA. Similar non-compliance was also reported in the prior year.

Other information

40. 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 key performance areas presented in the annual performance report that have been specifically reported in this auditor's report.
41. 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.

42. 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 key performance area presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
43. 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

44. 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 findings on the annual performance report and the findings on compliance with legislation included in this report.
45. Management did not always provide adequate supervision and reviews over operations to ensure the usefulness of performance information and compliance with laws and regulations as numerous misstatements were identified during the audit. Supply chain management processes were also inadequate resulting in irregular expenditure
46. Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information. The accounting officer did not adequately review the financial statements and annual performance report before submitting for audit.
47. The action plan developed by the municipality to address internal and external audit findings for performance information and compliance with laws and regulations was not effective and did not ensure that root causes that resulted in these findings are properly identified to resolve the issues.
48. A significant number of positions at senior management level are vacant resulting inadequate review process in procurement, performance, and financial management.

Other reports

49. I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

50. The Special Investigations Unit (SIU) submitted referrals to the municipality for investigation into alleged irregularities for the period 2011-2018 in respect of the affairs of the municipality in terms of proclamation number: R7 of 2018. The municipality addressed the recommendation and submitted a report to the SIU. The municipality is awaiting the final SIU report on the investigation from the office of the Presidency at date of this report.

Auditor General

Polokwane

30 November 2022



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected key performance area and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the Elias Motsoaledi Local Municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a 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

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.