

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

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the Elias Motsoaledi 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 information with actual information for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects and possible effects of the matter described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of Elias Motsoaledi Local Municipality as at 30 June 2024 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 of South Africa 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2023 (DoRA).

### Basis for qualified opinion

#### Property, plant and equipment

3. The municipality did not recognise impairment on some of its property, plant and equipment in line with GRAP 21, *Impairment of non-cash generating assets*. I identified assets with indicators of impairment that were not included in the impairment calculation. I was unable to determine the full extent of the impairment loss as it was impracticable to do so. I was unable to confirm the impairment loss by alternative means. Consequently, I was unable to determine whether any adjustments to the property, plant and equipment balance of R1 155 424 065 as disclosed in note 4 to the annual financial statements were necessary.

### Context for opinion

4. 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.
5. 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.

6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Emphasis of matters**

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

#### **Material losses - electricity**

8. As disclosed in note 48 to the financial statements, material electricity losses of R20 929 386 (2023: R13 957 494) were incurred, which represents 19% (2023: 15%) of total electricity purchased. The electricity losses were due to technical factors such as network status, condition, and aging infrastructure, as well as external factors like weather conditions and system load and non-technical factors such as illegal connections and vandalism.

#### **Material impairment- consumer debtors and traffic fines**

9. As disclosed in note 31 to the financial statements, material impairment of R92 120 744 (2023: R126 107 702) was incurred as a result of irrecoverable consumer debtors and traffic fine debtors.

#### **Events after the reporting date**

10. I draw attention to note 44 in the financial statements, which deals with subsequent events and specifically the possible effects of future revenue from sale of electricity on the municipality. My opinion is not modified in respect of this matter.

### **Other matter**

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

#### **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. 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**

13. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the 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<sup>1</sup>**

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. This description, which is located at page 10, forms part of our auditor's report.

<b>Report on the audit of the annual performance report</b>
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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 2024 for auditing. I selected key 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 areas	Page numbers	Purpose
<b>Spatial development analysis and Rationale</b>	xx-xx	To promote integrated human settlements
<b>Local economic development</b>	xx-xx	To promote conducive environment for economic growth and development
<b>Basic service delivery and infrastructure development</b>	xx-xx	To provide for basic service delivery and sustainable infrastructural development

19. I evaluated the reported performance information for the selected key performance areas presented 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
- 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 and is comparable and understandable.
- 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 KPA 3: Local economic and development.

23. The material findings on the reported performance information for the following key performance areas are as follows:

#### **KPA 1: Spatial planning analysis and rationale**

##### **% of inspections conducted on building construction with an approved plan to ensure compliance with Sec.6(c) and 17(b) on National Building Regulations and Building Standards Act**

24. Adequate supporting evidence to clarify the method and processes for measuring achievement of this indicator and its target were not provided. Consequently, the municipality would have found it difficult to determine the correct achievement to be reported against the planned targets.

25. Furthermore, the achievement that have been reported might not have taken place at all or were less or more than what was actually achieved, as the audited evidence did not agree to the reported achievements for the target.

## KPA 4: Basic service delivery and infrastructure development.

### Designs of voltage regulator bulk strengthening and households stands at Phooko

26. The target of appointment of the contractor, site handover and site establishment by 30 June 2024 does not relate directly to the indicator, which measures designs of voltage regulator bulk strengthening and households stands at Phooko. This makes it difficult to plan for the achievement of the indicator. Consequently, the reported achievement does not provide useful information on the indicator's achievement.

### Other matters

27. I draw attention to the matters below.

### Achievement of planned targets

28. 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.

29. The tables that follow provide 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.

### KPA 1 – Spatial development and rationale

Targets achieved: 80%		
Budget spent: 56%		
Key indicators not achieved	Planned target	Reported achievement
Number of sites to be Demarcated at Dikgalaopeng	200 number of sites	0 Number of sites

### KPA 3 – Local economic development

Targets achieved: 60%		
Budget spent: 100%		
Key indicators not achieved	Planned target	Reported achievement
Number of work opportunities created through public employment programme (CP) (GKPI)	1100 job opportunities created	1099 job opportunities created
Number of job opportunities created through infrastructure projects	295 job opportunities created	232 job opportunities created

## KPA 4 – Basic services delivery and infrastructure development

Targets achieved: 81%		
Budget spent: 75%		
Key indicators not achieved	Planned target	Reported achievement
Number of stands reticulated with electrical infrastructure at Vlakfontein	50 stands to be reticulated	37 stands reticulated
Construction of Maraganeng internal Access Road	1km	0km
Construction of Tafelkop stadium access road	5.5km	0km
% expenditure on machinery and equipment	100%	91%

### Material misstatements

30. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for KPA 1 – Spatial development and rationale ; KPA 3 – Local economic development and KPA 4 – Basic services delivery and infrastructure development Management did not correct all of the misstatements and I reported material findings in this regard

### 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 and annual report

35. 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.

36. Material misstatements of non-current assets, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements of impairment loss resulted in the financial statements receiving a qualified audit opinion.

### **Expenditure management**

37. Reasonable steps were not taken to prevent irregular expenditure amounting to R 46 404 045 as disclosed in note 47 to the annual financial statements, as required by section 62(1) (d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with 2017 preferential procurement regulation 5(1), awards made to bidders on functionality points that differed from those stipulated in the original invitation for bidding and non-adherence to subcontracting requirements.

38. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R 245,167 as disclosed in note 46 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 monitoring**

39. 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).

### **Other information in the annual report**

40. The accounting officer is responsible for the other information included in the annual report. The other information referred to 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 on in this auditor's report.

41. 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.

42. 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.

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 and 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 to 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, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
45. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion and the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
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. Non-compliance with legislation could have been prevented if compliance was properly reviewed and monitored by the municipality.

## Other reports

49. I draw 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.
50. The Special Investigations Unit (SIU) submitted referrals to the municipality for an 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 recommendations and submitted a report to the SIU. At the date of this report, the municipality was awaiting the final SIU report on the investigation from the Presidency.

*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 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 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
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)  <b>Parent municipality with ME:</b> Sections 93B(a), 93B(b)

Legislation	Sections or regulations
	<b>Parent municipality with shared control of ME:</b> Sections 93C(a)(iv), 93C(a)(v)
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)