Report of the auditor-general to the North West provincial legislature and the council of the Moretele Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Moretele Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2021, the statement of financial performance, statement of changes in net assets, cash flow statement and the 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, the financial statements present fairly, in all material respects, the financial position of Moretele Local Municipality as at 30 June 2021 and its financial performance and cash flows for the year then ended, in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), the requirements of the Municipal Finance Management Act of South Africa, 56 of 2003 (MFMA) and the Division of Revenue Act of South Africa, 16 of 2019 (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.

Unauthorised expenditure

7. As disclosed in note 45 to the financial statements, unauthorised expenditure of R72 597 000 was incurred in the current year and the unauthorised expenditure of R660 775 089 in respect of prior years have not yet been dealt with in accordance with section 32 of the MFMA.

Material losses

8. As disclosed in the statement of financial performance, material losses of R10 562 226 (2020: R57 275 466) were incurred as a result of a write-off of irrecoverable trade debtors.

9. As disclosed in note 33 the financial statements, material water losses of R9 294 977 (2020:R11 765 280) were incurred, which represents 33% (2020: 37%) of total water purchased.

Restatement of corresponding figures

10. As disclosed in note 40 to the financial statements, the corresponding figures for 30 June 2020 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2021.

Uncertainty relating to the future outcome of exceptional litigation

11. With reference to note 38 to the financial statements, the municipality is the defendant in a number of lawsuits. The municipality is opposing the claims amounting to R31 575 112. The ultimate outcome of the matters cannot currently be determined and no provision for any liability that may result has been made in the financial statements.

Other matters

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. These disclosures, as included in note 48 to the financial statements, 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

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 objectives 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 objectives presented in the municipality's annual performance report for the year ended 30 June 2021:

Development priority	Pages in the annual performance report
KPI 1 – basic services and infrastructure development	x – x

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 development priority are as follows:

All indicators

23. A comparison between the planned and actual performance of the year under review and previous year was not included in the annual performance report.

24. The measures taken to improve performance against target for all targets were not included in the annual performance report.

Indicator description	Reported achievement
No. of toilets constructed by June 2021	300 toilets completed in ward 23 (Kromkuil) by March 2021
No. of toilets constructed by June 2021	125 Bio tech toilets completed in ward 26 by December 2020
No. of households with metered yard connection for reduction of unaccounted for water	2685 households in ward 15,16,17,18 & 22 by June 2021
No. of toilets constructed by June 2021	286 completed by June 2021
No. of toilets constructed by June 2021	1470 VIP toilets complete by June 2021
No. of households with piped water inside the yard by June 2021	1431 households with piped water inside the yard in ward 2 (Olverton, Voyenteen, Swartboom, Utsane, Tlounane) by June 2021
No. of households with piped water inside the yard by June 2021	410 households with piped water inside the yard in ward 7 by June 2021
No. of toilets constructed by June 2021	195 Bio tech toilets completed in Ward 19 by March 2021.
No. of boreholes drilled & equipped by June 2021	10 Boreholes equipped & complete by June 2021
No of households connected by June 2021	Elevated tanks installed and connected by June 2021
No. of toilets constructed by June 2021	125 Bio tech toilets constructed in ward 24 (Mathibestad) by June 2021.
No. of toilets constructed by June 2021	160 Bio tech toilets constructed in ward 18 (Mathibestad) by June 2021.

Various indicators

25. The achievements reported in the annual performance report differed materially from the supporting evidence provided for the indicators listed below:

Indicator description	Reported achievement
Number of boreholes drilled & equipped by June 2021.	10
Number of Biotech toilets constructed in ward 24 (Mathibestad) by June 2021.	125

Various indicators

26. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of three of the 21 indicators relating to this programme. This was due to a lack of accurate and complete records. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report for the indicators listed below:

Indicator description	Planned target	Reported achievement
Number of VIP toilets constructed in ward 23 (Kromkruil) by June 2021	300 VIP toilets constructed in ward 23 (Kromkruil) by June 2021.	300 VIP toilets constructed in ward 23 (Kromkruil) by June 2021
Number of households with metered yard connection for reduction of unaccounted for water	2685 metered yard connections for households in ward 15,16,17,18 & 22 by June 2021	2685 metered yard connections for households in ward 15,16,17,18 & 22 by June 2021
Number of VIP toilets constructed in ward 1 (Little and Bollantlhokwe) by June 2021	300 VIP toilets constructed in ward 1 (Little & Bollantlokwe) by June 2021	286 VIP toilets constructed in ward 1 (Little & Bollantlokwe) by June 2021

Other matters

27. I draw attention to the matters below.

Achievement of planned targets

28. Refer to the annual performance report on pages … to … 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 23 to 26 of this report.

Report on the audit of compliance with legislation

Introduction and scope

29. 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.

30. The material findings on compliance with specific matters in key legislation are as follows:

Financial statements, performance report and annual reports

31. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of current assets, current liabilities, non-current assets, non-current liabilities, expenditure, disclosure notes, cash flow statement and the statement of comparison of budget information with actual information identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records provided, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

32. 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.

33. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.

Expenditure management

34. Reasonable steps were not taken to prevent irregular expenditure amounting to R47 191 775 disclosed in note 47 to the financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with the Municipal SCM Regulations.

35. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R72 597 000 as disclosed in note 45 to the financial statements, in contravention of section 62(1)(d) of the MFMA. Most of the unauthorised expenditure was caused by inadequate budgetary control.

Consequence management

36. Unauthorised, irregular, fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) and 32(2)(b) of the MFMA.

Strategic planning and performance management

37. The SDBIP for the year under review did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote, as required by section 1 of the MFMA.

Other information

38. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information 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 in this auditor's report.

39. 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.

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

41. I have nothing to report in this regard.

Internal control deficiencies

42. 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 the findings on the annual performance report and the findings on compliance with legislation included in this report.

    - Management did not implement adequate daily and monthly processes to ensure that complete, relevant and accurate information is accessible and available to allow for accurate and complete performance reporting.

    - Management did not adequately monitor the implementation of policies and procedures, to guide the operations of the municipality, resulting in numerous instances of non-compliance with the MFMA including material adjustments to the financial statements.

    - Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information due to inadequate reviews.

Material irregularities

43. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit.

Material irregularity in progress

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

Other reports

45. 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.

46. Investigations into the investment of funds by the municipality with VBS Mutual Bank contrary to the requirements of regulation 6 of the Municipal Investment Regulations by the municipal public accounts committee, and the Directorate of Priority Crime Investigations (Hawks) were still in progress at the time of this report. Similar investigations by the North West Department of Local Government and Human Settlements and the financial disciplinary board were concluded and the reports were submitted to the council.

47. The Special Investigations Unit (SIU) and the Hawks were instructed by the president of South Africa under proclamation R.7 of 2019 dated 8 February 2019 to conduct an investigation into certain contracts awarded by the municipality from January 2016 to February 2019. This investigation was still in progress.

Auditor-General.

Pretoria

9 December 2021

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 objectives 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 Moretele 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.