

Report of the auditor-general to the North West Provincial Legislature and the council on the Moretele Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Moretele Local Municipality set out on pages xx to xx, 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 the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the 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 the Moretele Local Municipality as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (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 qualified opinion

Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment as the assets were not recorded in the fixed assets register. I was unable to confirm these property, plant and equipment by alternative means. Furthermore, the municipality did not review the remaining useful lives of assets at each reporting date in accordance with GRAP 17, *Property, plant and equipment*. Assets had a zero net carrying amount while still being in use. I was unable to determine the impact on the net carrying amount of assets as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments were necessary to property, plant and equipment of R1 180 801 353 as disclosed in note 4, the depreciation and impairment on property, plant and equipment of R59 610 983 included in the depreciation and amortisation expense, as disclosed in note 29 to the financial statements and the impact on the surplus for the period.

Context for the 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 auditor-general's responsibilities for the audit of the financial statements section of this auditor's 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.

Unauthorised and irregular expenditure

8. As disclosed in note 44 to the financial statements, unauthorised expenditure of R138 998 578 was incurred in the current year and unauthorised expenditure of R678 426 437 in respect of prior years had not yet been dealt with in accordance with section 32 of the MFMA.
9. As disclosed in note 46 to the financial statements, irregular expenditure of R41 794 068 was incurred in the current year and irregular expenditure of R885 576 225 from prior years had not yet been dealt with in accordance with section 32 of the MFMA.

Restatement of corresponding figures

10. As disclosed in note 39 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2022.

Uncertainty relating to the future outcome of litigations

11. With reference to note 37 to the financial statements, the municipality is the defendant in a number of lawsuits. The municipality is opposing claims of R34 589 962. 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.



Material losses

12. As disclosed in note 32 to the financial statements, material water losses of R32 729 630 (2021-22: R9 294 977) was incurred, which represents 54% (2020-21: 33%) of total water purchased.
13. As disclosed in note 30 to the financial statements, the consumer debtors' balance has been significantly impaired. The allowance for impairment of consumer debtors amounts to R105 633 121 (2021: R28 618 033) which represents 85% (2021: 79%) of total consumer debtors. In addition, as disclosed in note 13 to the financial statements, contributions of R464 832 662 (2021: R359 199 540) to the debt impairment provision were incurred as a result of significant impairment of debtors.

Other matter

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

Unaudited disclosure notes

15. 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 on it.

Responsibilities of the accounting officer for the financial statements

16. 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.
17. In preparing the financial statements, the accounting officer is responsible for assessing the Moretele Local 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 there is no realistic alternative but to do so.

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

18. 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 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 the aggregate, they could

reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

19. 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

20. 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 usefulness and reliability of the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
21. 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 also did not extend to any disclosures or assertions relating to 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.
22. 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 1 – basic services and infrastructure development	xx – xx

23. 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.
24. The material findings in respect of the usefulness and reliability of the performance information for the selected key performance area is as follows:

KPA 1 – Basic services and infrastructure development

Various indicators

25. I was unable to obtain sufficient appropriate audit evidence for the achievement of the indicators listed below reported in the annual performance report, due to the lack of accurate and complete records. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement.

Indicator description	Planned target	Reported achievement
No. of households with piped water inside the yard by June 2022	1 104 households with piped water inside the yard in ward 2 phase 2 (Olverton, Voyenteen, Swartboom, Utsane, Tlounane) by June 2022	914 yard connections by June 2022
No. of toilets constructed by June 2022	2 290 VIP toilets constructed in wards 1, 2, 3, 6, 7, 8, 10, 11, 12, 13, 15, 16, 17, 20, 21, 22, 23, 24, 25 by June 2022	1 840 completed by June 2022

Other matters

26. I draw attention to the matters below.

Achievement of planned targets

27. 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 25 of this report.

Adjustment of material misstatements

28. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPI 1 – basic services and infrastructure development. As management subsequently corrected only some of the misstatements, I reported material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on 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:

Annual financial statements

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, expenditure, disclosure notes, 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 were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

32. Reasonable steps were not taken to prevent unauthorised expenditure of R138 998 578, 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 relates to non-cash related expenditure like impairment of debtors.

33. Reasonable steps were not taken to prevent irregular expenditure of R41 794 068 disclosed in note 46 to the financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by expenditure incurred on expired contracts, which was extended on a month to month basis.

34. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R768 812, as disclosed in note 45 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the fruitless and wasteful expenditure was caused by penalties charged on late payments.

Consequence management

35. Unauthorised, irregular and 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(a) and (b) of the MFMA.

Strategic planning and performance management

36. The service delivery and budget implementation plan (SDBIP) for the year under review did not include monthly revenue projections by source of collection, as required by section 1 of the MFMA.



Procurement and contract management

37. Some quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by supply chain management (SCM) regulation 13(c).

Other information

38. 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 selected key performance areas presented in the annual performance report that have been specifically reported on 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 development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
41. I did not receive the other information prior to the date of this auditor's report. After I receive and read this information, and if I conclude that there is a material misstatement, 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

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 thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
- Management did not effectively implement and monitor the corrective action plans initiated by leadership to address prior year audit findings. Root causes were not addressed which resulted in repeat findings on financial and performance reporting as well as compliance with legislation.



- Management did not adequately monitor the implementation of preventative internal controls, policies and procedures to guide the operations of the municipality, resulting in instances of material non-compliance with the MFMA and material misstatements in the financial statements, some of which were adjusted.
- Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support credible financial and performance reporting.
- Management did not adequately review the financial statements before their submission to the audit committee and external auditors. Material misstatements were identified in the financial statements submitted.

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 irregularities identified during the audit

44. The material irregularities identified are as follows:

Investment of funds in contravention of the Municipal Investment Regulations

45. During 2018, the municipality invested funds in a 32-day notice account with a mutual bank that was not registered in terms of the Banks Act 94 of 1990, which is a contravention of municipal investment regulation 6(c). As the mutual bank was placed under curatorship on 11 March 2018, the non-compliance is likely to result in a material financial loss if the municipality cannot obtain a refund on these deposits made. During the 2020-21 financial year, the municipality impaired the investment of R51 057 065 (including interest) as disclosed in note 14 to the financial statements.

46. The accounting officer was notified on 26 November 2021 and invited to make a written submission on the actions taken and that will be taken to address the matter. The following actions have been taken or are in progress to resolve the material irregularity:

- The municipality successfully lodged a claim against the estate of the mutual bank on 13 November 2018 in the Polokwane High Court. The claim and the process to recover the deposits from the estate of the mutual bank is still in progress. To date the municipality has received an amount of R3 500 000 on 4 February 2022 from the appointed curator.
- The municipality instituted disciplinary actions against the previous accounting officer, resulting in his resignation effective 30 October 2021.
- The accounting officer subsequently reviewed the investment policy on 28 May 2021, which required confirmation that the deposit taking financial institution complies with the Bank Act of 1990, before deposits can be placed.

47. I will follow-up on the implementation of the planned actions during my next audit.

Other reports

48. In addition to the investigations relating to material irregularities, I draw attention to the following engagements conducted by various parties that 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.

Investigations

49. 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.

50. 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 investigate certain contracts awarded by the municipality from January 2016 to February 2019. On 18 July 2022, the SIU announced that the case had been handed over to National Prosecuting Authority for prosecution (NPA). These proceedings were in progress at the date of this auditor's report.

Auditor-General

Rustenburg

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 development priorities 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 the 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 related 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 the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a municipality to cease to continue as a going concern
 - Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and 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 confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and where applicable, related safeguards.