

Report of the auditor-general to the North West Provincial Legislature and the council on 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 xx to xx, which comprise the statement of financial position as at 30 June 2023, statement of financial performance, statement of changes in net asset, 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, the financial statements present fairly, in all material respects, the financial position of the Moretele Local Municipality as at 30 June 2023 and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2022 (DoRA).
3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the financial statements section of my report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

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

Unauthorised, Irregular and Fruitless and wasteful Expenditure

7. As disclosed in note 43 to the financial statements, unauthorised expenditure of R119 299 528 was incurred in the current year and the unauthorised expenditure of R709 529 319 in respect of prior years have not yet been dealt with in accordance with section 32 of the MFMA.

8. As disclosed in note 45 to the financial statements, irregular expenditure of R22 337 011 was incurred in the current year and irregular expenditure of R932 988 155 from prior years have not yet been dealt with in accordance with section 32 of the MFMA.
9. As disclosed in note 44 to the financial statements, fruitless and wasteful expenditure of R1 806 047 was incurred in the current year and fruitless and wasteful expenditure of R17 102 644 from prior years have not yet been dealt with in accordance with section 32 of the MFMA.

Restatement of corresponding figures

10. As disclosed in note 40 to the financial statements, the corresponding figures for 30 June 2022 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2023.

Uncertainty relating to the future outcome of litigations

11. With reference to note 38 to the financial statements, the municipality is the defendant in a land-claim lawsuit. The municipality is opposing the claim, as it believes that the claim is fraudulent. The ultimate outcome of the matter could not be determined and no provision for any liability that may result was made in the financial statements.

Material losses

12. As disclosed in note 31 to the financial statements, the consumer debtors' balance has been significantly impaired. The allowance for impairment of consumer debtors amounts to R101 994 359 (2022: R105 633 121). In addition, as disclosed in note 13 to the financial statements, debt impairment provision of R566 827 020 (2022: R464 832 662) to the was incurred as a result of significant impairment of debtors.

Other matter

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

Unaudited disclosure notes

14. 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

15. 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 the 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.
16. 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 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

17. 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.
18. 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 annual performance report

19. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected development priority presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
20. I selected the following development priority presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected a development priority that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

Development priority	Page numbers	Purpose.
KPA 1 – Basic services and infrastructure development	[XX]	To ensure access to sustainable services and infrastructure to all households.

21. I evaluated the reported performance information for the selected development priority 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.
22. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives
- the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements
- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated
- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
- the reported performance information is presented in the annual performance report in the prescribed manner
- there is adequate supporting evidence for the achievements reported and for the measures taken to improve performance .

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

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

KPA 1 – Basic services and infrastructure development

Percentage of construction of water reticulation and communal standpipes.

25. The indicator was included in the approved service delivery and budget Implementation plan but then not clearly defined during planning processes. It was also not determined how the related target would be measured and what evidence would be needed to support the achievement. Consequently, the information might be less useful for measuring performance.

Other matters

26. I draw attention to the matters below.

Achievement of planned targets

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

Material misstatements

28. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for basic services and infrastructure development. Management did not correct all of the misstatements and I reported material findings in this regard.

Report on compliance with legislation

29. 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.
30. 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.
31. 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.
32. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements, performance and annual report

33. 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 disclosure items and statement of comparison of budget and actual amounts identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

34. The preference point system was not applied on some of the procurement of goods and services as required by section 2(1)(a) of the Preferential Procurement Policy Framework Act.

Expenditure management

35. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
36. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R1 806 407, as disclosed in note 44 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 interest on overdue account.
37. Reasonable steps were not taken to prevent unauthorised expenditure amounting to 119 299 528, as disclosed in note 43 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by impairment of receivables

Consequence management

38. 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 budgeting

39. The service delivery and budget implementation plan (SDBIP) for the year under review did not include monthly revenue projections by source of collection and monthly Operational and capital expenditure, by vote, as required by section 1 of the MFMA.
40. Some performance targets were not set for each of the key performance indicators (KPIs) for the financial year, as required by section 41(1)(b) of the MSA and municipal planning and performance management regulation 12(1).
41. The integrated development plan (IDP) did not reflect the a financial plan as required by sections 26 (h) of the MSA and municipal planning and performance management regulation 2(3)(a).

Other information in the annual report

42. The accounting officer is responsible for the other information included in the annual report, which includes the audit committee's report. The other information referred to does not include the financial statements, the auditor's report and those selected development priorities presented in the annual performance report that have been specifically reported on in this auditor's report.
43. 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.
44. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
45. If, based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

46. 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.

47. The matters reported below are limited to the significant internal control deficiencies that resulted in the material findings on the annual performance report and the material findings on compliance with legislation included in this report.
48. The accounting officer did not exercise oversight responsibility regarding the monitoring of compliance with the consequence management requirements which resulted in unauthorised, Irregular and Fruitless and wasteful not being investigated.
49. 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 compliance with legislation.
50. 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, which were subsequently corrected.
51. Management did not adequately review the municipality's annual performance indicators and targets to ensure alignment with requirements of the MSA.

Material irregularities

52. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of material irregularities as previously reported in the auditor's report.

Status of previously reported material irregularities

Investment of funds in contravention of the Municipal Investment Regulations

53. 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.
54. 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:
55. 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.

56. The municipality instituted disciplinary actions against the previous accounting officer, resulting in his resignation effective 30 October 2021.
57. 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.

Other reports

58. In addition to the investigations relating to material irregularities, 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.
59. 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.
60. 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 2023



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

- The auditor-general's responsibility for the audit
- The selected legislative requirements for compliance testing

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected development priorities and on the municipality's compliance with selected requirements in key legislation.

Financial statements

In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:

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

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:

No	Legislation	Section
1	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)
2	MFMA: Municipal Budget and Reporting Regulations, 2009	Regulations 71(1), 71(2), 72
3	MFMA: Municipal Investment Regulations, 2005	Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
4	MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations 5(4), 6(8)(a), 6(8)(b), 10(1)
5	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)
6	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)
7	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)
8	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)
9	MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations 17(2), 36(1)(a)
10	MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
11	Annual Division of Revenue Act	Section 11(6)(b), 12(5), 16(1); 16(3)
12	Construction Industry Development Board Act 38 of 2000	Section 18(1)
13	Construction Industry Development Board Regulations	Regulations 17, 25(7A)
14	Municipal Property Rates Act 6 of 2004	Section 3(1)
15	Preferential Procurement Policy Framework Act 5 of 2000	Sections 2(1)(a), 2(1)(f)
16	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)
17	Preferential Procurement Regulations, 2022	Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)
18	Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)