



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 appropriation statement, 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 and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Moretele Local Municipality as at 30 June 2024 and 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 2023 (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 and irregular expenditure

7. As disclosed in note 44 to the financial statements, unauthorised expenditure of R96 240 572 was incurred in the current year and the unauthorised expenditure of R709 529 319 in respect of prior years had not yet been dealt with in accordance with section 32 of the MFMA.

Material losses - Impairment of property plant and equipment

8. As disclosed in note 32 to the financial statements, material losses of R72 435 950 were incurred as a result of significant impairment of property plant and equipment.

Material losses - Impairment of receivables

9. As disclosed in note 32 to the financial statements, material losses of R81 228 565 (2023: R101 994 359) were incurred as a result of significant impairment of receivables.

Other matters

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

Unaudited disclosure notes

11. 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

12. 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.
13. 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

14. 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.

15. 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 appears on page 11, forms part of our auditor's report.

Report on the audit of the annual performance report

16. 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 (KPA's) presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

17. 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 measures 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
KPA 1 – Basic service delivery and infrastructure development	xx	Basic services and infrastructure development ensure access to sustainable services and infrastructure to all households
KPA 4 – Local economic development	xx	Local economic development promotes and enhances economic development, growth and economic access.

18. I evaluated the reported performance information for the selected key performance areas 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.

19. 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

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

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

Basic Service delivery and infrastructure development

1km road layer works by June 2024 in ward 10

22. The approved planning documents included a commitment to complete 1km road layer works by June 2024 in ward 10. However, an achievement of 55% was reported in the annual performance report. This discrepancy highlights misalignment between approved plans and operations, while the incorrect reporting undermines transparency and accountability.

23. Furthermore, an achievement of 55% road layer works by June 2024 in ward 10 was reported against a target of 100% road layer works by June 2024 in ward 10. The audit evidence did not support this achievement, and I identified material differences between the actual and reported achievements. Consequently, the achievement might be more or less than reported and was not reliable for determining if the target had been achieved.

Relevant political mandate indicator not included in prioritised core functions

24. The municipality is responsible for the provision of basic water services in terms of the Medium-Term Strategic Framework (MTSF). However, an indicator to measure performance on this objective was not included in the approved planning documents. The accounting officer did not provide a reason for this. Consequently, the achievement of this objective was not planned or accounted for, which is likely to result in it not being delivered. It further undermines transparency and accountability on the progress towards achievement of the MTSF.

Overall presentation not comparable and understandable

25. Overall, the performance information for basic service delivery and infrastructure development was not reported in such a way that it could be compared and would be easy to understand. Numerous inconsistencies were identified between the output indicator and the activities that have been reported. The annual performance report (APR) does not have a clear format and layout and, concise content and is not easy to read because of over-reporting of activities as key indicators. Consequently, the reported performance information is not comparable and understandable, which undermines transparency and accountability.

Local economic development priority

Number (12) of agricultural projects developed or supported by June 2024

26. An achievement of 11 agricultural projects developed or supported by June 2024 was reported against a target of 12 agricultural projects developed or supported by June 2024. The reason reported for the underachievement was delay in supply chain processes for the appointment of a service provider as well as budget constraints. However, adequate supporting evidence was not provided for auditing. Consequently, I could not confirm the reliability of the reported reasons.

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 table that follows provides information on the achievement of planned targets and lists 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 - Basic service delivery and infrastructure development

<i>Targets achieved: 77%</i> <i>Budget spent: 97%</i>		
Key indicator not achieved	Planned target	Reported achievement
Number (6) of high mast-lights erected by June 2024 in ward 17	6	0
Percentage (100) completion of concrete reservoir with 7 elevated steel tanks and booster pump by June 2024 in (Moeka, Ga-Motle x 2, Ratjiepane, Kromkuil, Mmakaunyane & Norokie) Schedule B	100	40
1km road layer works by June 2024 in ward 10	100	55
Number (7) of steel tanks installed by June 2024	7	0
Percentage (100) completion of construction reservoir and installation of booster pump by June 2024	100	40
Km (1) of water reticulation pipeline completed by December 2023	1	0

Km (0,85) excavated by December 2023 in ward 11 (Mogogelo)	0.85	0.5
Percentage (100) completion of road layer works by June 2024 in ward 10 (1km)	100	55
Km (1) of road layer works by June 2024 in ward 3	1	0.66

KPA 4 - Local economic development

<i>Targets achieved: 58%</i>		
<i>Budget spent: 100%</i>		
Key indicator not achieved	Planned target	Reported achievement
Number (12) of agricultural projects developed or supported by June 2024	12	11
Percentage (100) of authorisation from the department and final assessment by December 2023	100	0
Percentage (100) of Appointment of service provider and construction by June 2024	100	0

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 basic service delivery and infrastructure development and local economic development. Management did not correct all 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 for 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:

Asset management

35. Capital assets were disposed of without the municipal council having decided, in a meeting open to the public whether the assets were still needed to provide the minimum level of basic municipal services as required by section 14(2)(a) of the MFMA.

Procurement and contract management

36. Some quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act 2022 Preferential Procurement Regulation 4(4) and 5(4).

Expenditure management

37. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
38. Reasonable steps were not taken to prevent irregular expenditure amounting to R 10 127 527 as disclosed in note 46 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with procurement processes.
39. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R1 253 365, as disclosed in note 45 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest on overdue account.
40. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R96 240 572 as disclosed in note 44 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by depreciation and other expenditure.

Consequences management

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

Strategic planning and performance budgeting

42. No KPIs were set in respect of the provision of basic water services, as required by section 43(2) of the Municipal Systems Act (MSA) and municipal planning and performance management regulation 10(a).

43. Performance targets were not set for each of the KPIs for the financial year, as required by section 41(1)(b) of the MSA and municipal planning and performance management regulation 12(1).

Other information in the annual report

44. 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.

45. 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.

46. 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.

47. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

48. 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.

49. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the opinion, the material findings on the annual performance report and the material findings on compliance with legislation included in this report.

50. 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 expenditure not being investigated.

51. 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 performance information and compliance with legislation.

52. 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.
53. Management did not adequately review the municipality's annual performance indicators and targets to ensure alignment with requirements of the MSA.

Material irregularities

54. 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

55. The material irregularities identified are as follows:

Investment of funds in contravention of the Municipal Investment Regulations

56. 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.
57. The accounting officer was notified on 26 November 2021 and invited to make a written submission on the actions taken to address the matter. The following actions have been taken:
58. The municipality successfully lodged a claim against the estate of the mutual bank on 13 November 2018 in the Polokwane High Court. To date the municipality has received an amount of R3 500 000 on 4 February 2022 from the appointed curator.
59. The municipality instituted disciplinary actions against the previous accounting officer, resulting in his resignation effective 30 October 2021.
60. 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.
61. On 18 July 2022, the SIU announced that the case had been handed over to National Prosecuting Authority for prosecution (NPA).
62. I have concluded that the actions taken are appropriate to address the MI and therefore the MI is resolved

Auditor General

Rustenburg

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 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 [type of auditee]'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 (MFMA)	Section 1 (a), (b) & (d) of the definition: irregular expenditure Section 1 Definition of SDBIP Sections 11(1); 13(2); 14(1); 14(2)(a); 14(2)(b); 15 Sections 24(2)(c)(iv); 29(1); 29(2)(b); 32(2) Sections 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) Sections 62(1)(d); 62(1)(f)(i); 62(1)(f)(ii); 62(1)(f)(iii) Sections 63(2)(a); 63(2)(c); 64(2)(b); 64(2)(c); 64(2)(e) Sections 64(2)(f); 64(2)(g); 65(2)(a); 65(2)(b); 65(2)(e) Sections 72(1)(a)(ii); 95(a); 112(l)(iii); 112(1)(j) Sections 116(2)(b); 116(2)(c)(ii); 117; 122(1); 122(2) Sections 126(1)(a); 126(1)(b); 127(2); 127(5)(a)(i) Sections 127(5)(a)(ii); 129(1); 129(3); 133(1)(a) Sections 133(1)(c)(i); 133(1)(c)(ii); 170; 171(4)(a); 171(4)(b)
LG: MFMA: Municipal budget and reporting regulations, 2009	Regulations 71(1); 71(2); 72
LG: MFMA: Municipal investment regulations, 2005	Regulations 3(1)(a); 3(3); 6; 7; 12(2); 12(3)
LG: MFMA: Municipal regulations on financial misconduct procedures and criminal proceedings, 2014	Regulations 5(4); 6(8)(a); 6(8)(b); 10(1)
LG: MFMA: Municipal supply chain management (SCM) regulations, 2017	Regulations 5; 12(1)(b); 12(1)(c); 12(3); 13(b); 13(c); 13(c)(i) Regulations 16(a); 17(1)(a); 17(1)(b); 17(1)(c); 19(a) Regulations 21(b); 22(1)(b)(i); 22(2); 27(2)(a); 27(2)(e) Regulations 28(1)(a)(i); 28(1)(a)(ii); 29(1) (a) and (b) Regulations 29(5)(a)(ii); 29(5)(b)(ii); 32; 36(1) Regulations 38(1) (c); 38(1)(d)(ii); 38(1)(e); 38(1)(g)(i) Regulations 38(1)(g)(ii); 38(1)(g)(iii) Regulations 43; 44; 46(2)(e); 46(2)(f)
Municipal Systems Act 32 of 2000 (MSA)	Sections 25(1); 26(a); 26(c); 26(i); 26(h); Sections 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) Sections 56(a); 57(2)(a); 57(4B); 57(6)(a) Sections 66(1)(a); 66(1)(b); 67(1)(d); 74(1) Sections 93B(a); 93B(b); 93C(a)(iv); 93C(a)(v); 96(b)
LG: MSA: Municipal planning and performance management regulations, 2001	Regulations 2(1)(e); 2(3)(a); 3(3); 3(4)(b); 3(5)(a); 7(1); 8 Regulations 9(1)(a); 10(a); 12(1); 15(1)(a)(i); 15(1)(a)(ii)
LG: 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)
LG: MSA: Regulations on appointment and conditions of employment of senior managers, 2014	Regulations 17(2); 36(1)(a)

Legislation	Sections or regulations
LG: MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2); 5(3); 5(6); 8(4)
Annual Division of Revenue Act (DoRA)	Sections 11(6)(b); 12(5); 16(1); 16(3)
Construction Industry Development Board Act 38 of 2000 (CIDB)	Section 18(1)
CIDB regulations	Regulations 17; 25(7A)
Municipal Property Rates Act 6 of 2004 (MPRA)	Section 3(1)
Preferential Procurement Policy Framework Act 5 of 2000 (PPPFA)	Sections 2(1)(a); 2(1)(f)
Preferential Procurement regulations (PPR), 2017	Regulations 5(1); 5(3); 5(6); 5(7) Regulations 6(1); 6(2); 6(3); 6(5); 6(6); 6(8) Regualtions 7(1); 7(2); 7(3); 7(5); 7(6); 7(8) Regulations 8(2); 8(5); 9(1); 10(1); 10(2);11(1)
Preferential Procurement regulations (PPR), 2022	Regulations 3(1) Regulations 4(1); 4(2); 4(3); 4(4) Regualtions 5(1); 5(2); 5(3); 5(4)
Prevention and Combating of Corrupt Activities Act 12 of 2004 (PRECCA)	Section 34(1)