

Report of the auditor-general to Limpopo Provincial Legislature and council on Makhuduthamaga Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Makhuduthamaga Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2024, statement of financial performance, statement of changes in net assets, and 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 Makhuduthamaga Local Municipality as at 30 June 2024 and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2023 (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 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 matter below. My opinion is not modified in respect of this matter.

Material impairments - Receivables from non-exchange transactions

7. As disclosed in note 5 to the financial statements, allowance for impairment of R97 960 230 was recorded relating to receivables from non-exchange transactions due to a write-off of irrecoverable trade debtors.

Other matters

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

Unaudited disclosure notes

9. In terms of section 125(2) (e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion on it.

Unaudited supplementary schedules

10. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly, I do not express an opinion on them.

Responsibilities of the accounting officer for the financial statements

11. 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.
12. 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

13. 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.
14. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report. This description, which is located at page 7, forms part of our auditor's report.

Report on the audit of the annual performance report

15. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected key performance areas presented in the annual performance report. The municipality is responsible for the preparation of the annual performance report.
16. 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 Area	Page numbers	Purpose
Basic service delivery and infrastructure development	XX	To reduce infrastructure and service backlogs in order to improve the quality of life of the community by providing them with roads and storm water, bridges, electricity and maintenance of municipal infrastructure.
Local economic development	XX	To create and manage an environment that will promote development, stimulate and strengthen local economic growth.

17. 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.
18. 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

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

20. I did not identify any material findings on the reported performance information for the selected key performance areas

- Basic service delivery and infrastructure development
- Local economic development

Other matters

21. I draw attention to the matters below.

Achievement of planned targets

22. The annual performance report includes information on reported achievements against planned targets and provides explanations for measures taken to improve performance.

23. The table that follows provides information on the achievement of planned targets and list the key service delivery indicators that were not achieved as reported in the annual performance report. The reasons for any underachievement of targets / measures taken to improve performance are included in the annual performance report on pages xx to xx.

Basic service delivery and infrastructure development

<i>Targets achieved: 91%</i>		
<i>Budget spent: 66%</i>		
Key service delivery indicator not achieved	Planned target	Reported achievement
BS22 – Number of households/stands provided with access to electrical infrastructure at Ga Moloji by 30 June 2024	550 households	0 households
BS30 – Number of km access road from Mashabela Tribal office to Machacha to be constructed by 30 June 2024	5.5km	5.0km
BS31 – Number of households with access to solid waste removal services at Marishane, Glen Cowie newsstands and Glen cowie Mathausand by 30 June 2024	1282 households	1014 households

Material misstatements

24. 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. Management subsequently corrected all the misstatements, and I did not include any material findings in this report.

Report on compliance with legislation

25. 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.
26. 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.
27. 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.
28. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Financial statements, performance and annual reports

29. 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 identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

30. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R30 511 957, 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 under-budgeting of debt impairment expense.

Other information in the annual report

31. 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 key performance areas presented in the annual performance report that have been specifically reported on in this auditor's report.
32. 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.
33. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected key performance areas presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
34. 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

35. 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.
36. 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.
37. The accounting officer did not adequately review the annual financial statements and the annual performance report before submitting them for auditing.

Auditor General

Polokwane

28 November 2024



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

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

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

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

Financial statements

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

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

Communication with those charged with governance

I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	Section 1 Section 11(1) Section 13(2) Section 14(1); 14(2)(a); 14(2)(b) Section 15 Section 17(4)(a) Section 24(2)(c)(iv) Section 28(1) Section 29(1); 29(2)(b) Section 32(2); 32(2)(a) ;32(2)(a)(i);32(2)(a)(ii); 32(2)(b); 32(6)(a); 32(7) Section 53(1)(c)(ii) Section 54(1)(c) Section 62(1)(d); 62(1)(f)(i); 62(1)(f)(ii);62(1)(f)(iii) Section 63(2)(a); 63 (2)(c) Section 64(2)(e); 64(2)(b); 64(2)(c); 64(2)(f); 64(2)(g) Section 65(2)(a); 65(2)(b); 65(2)(e) Section 72(1)(a)(ii) Section 122(1) Section 126(1)(a) Section 127(2); 127(5)(a)(i); 127(5)(a)(ii) Section 129(1); 129(3) Section 133(1)(a); 133(1)(c)(i); 133(1)(c)(ii) Section 170 Section 171(4)(a); 171(4)(b)
Municipal Investment Regulations	Regulation 3(1)(a); 3(3) Regulation 6 Regulation 7 Regulation 12(2); 12(3)
Municipal budgeting and reporting regulation	Regulation 7(1); 7(2) Regulation 71(1)(a); 71(1)(b); 71(2)(a); 71(2)(b); 71(2)(d) Regulation 72(a); 72(b); 72(c)
Municipal system Act	Section 4(1)(a); 4(1)(b) Section 25(1)

Legislation	Sections or regulations
	Section 26(a); 26(c); 26(h); 26(i) Section 29(1)(b)(iii) ;29(3)(b) Section 34(a); 34(b); 38(a) Section 42 Section 56(a) Section 57(2)(a); 57(4B); 57(6)(a) Section 66(1)(a); 66(1)(b) Section 67(1)(d) Section 74(1) Section 96(b)
Municipal Planning and Performance Management Reg.	Regulation 2(1)(e); 2(3)(a) Regulation 3(3); 3(5)(a); 3(6)(b) Regulation 7(1) Regulation 8 Regulation 9(1)(a) Regulation 10(a) Regulation 12(1) Regulation 15(1)(a)(i)
Division of Revenue Act 5 of 2022 (DoRA)	Section 11(6)(b) Section 12(5) Section 16(1) Section 16(3)
Municipal Property Rates Act	Section 3(1)
Disciplinary Regulations for Senior Managers	Regulation 5(2); 5(3); 5(6) Regulation 8(4)
Financial Misconduct Regulation	Regulation 5(4) Regulation 6(8)(a) Regulation 10(1)
PRECCA	Section 34(1)
Municipal performance regulations for municipal managers and directly accountable to municipal managers	Regulation 2(3)(a) Regulation 4(4)(b) Regulation 8(1); 8(2); 8(3)
Regulations on appointments and conditions of employment of senior managers	Regulation 36(1)(a) Regulation 17(2)