The accounting officer
Mopani District Municipality
Private Bag X9687
Giyani
0826

Date: 11 December 2023

Reference: 60059REG2022-23

Dear Sir

Report of the Auditor-General on the financial statements, annual performance report, compliance with legislation and other legal and regulatory requirements of Mopani District Municipality for the year ended 30 June 2023

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act No. 25 of 2004 (PAA) read in conjunction with section 188 of the Constitution of the Republic of South Africa and section 126(3) of the Municipal Finance Management Act 56 of 2003 (MFMA).
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and the annual performance report and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements, the annual performance report or our report on compliance with legislation. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the auditor's report in the municipality's annual report to be tabled.
4. Prior to printing or copying the annual report which will include the auditor's report you are required to do the following:
   - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the auditor's report and for confirmation that the financial statements, annual performance report and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
   - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in

the hard copy that is provided to you. The official logo will be made available to you in electronic format.

5. Please notify the undersigned Deputy Business Unit Leader (DBUL) well in advance of the date on which the annual report containing this audit report will be tabled.
6. The confidentiality of information obtained in an engagement must be observed at all times. In terms of section 50 of the PAA and the International Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants *(including International Independence Standards*), members of the staff of the Auditor General (AG), or an audit firm appointed in terms of section 25 of the PAA, may not disclose or make available any information obtained during an audit, other than the final auditor's report, to any third party without the permission of the AG or his/her delegate, unless this is to a legislature or internal committee of a legislature or a court in a criminal matter..
7. Until the steps described in paragraphs 2 and 4 of this document are completed and the annual report is tabled as required by section 127(2) of the MFMA, the audit report is not a final and public document and you are therefore requested to treat it as confidential.
8. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed

....
Deputy Business Unit Leader (DBUL): Limpopo

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Report of the auditor-general to Limpopo Provincial Legislature and the council on Mopani District Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Mopani District 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 assets, 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, except for the effects and possible effects of the matters 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 Mopani District Municipality as at 30 June 2023, and financial performance and cash flows for the year then ended in accordance with the 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 2022 (DoRA).

Basis for qualified opinion

Property, plant and equipment

3. The municipality did not recognise impairment on infrastructure assets in line with GRAP 21, *Impairment of non-cash generating assets*. I identified assets with indicators of impairment that were not included in the impairment calculation. I was unable to determine the full extent of the impairment loss as it was impracticable to do so. Additionally, I identified unexplained differences on infrastructure assets amounting to R21 424 833 on the corresponding balances. Consequently, I was unable to determine whether any adjustments to the infrastructure assets balance of R6 199 138 130 (2022: R6 398 125 578) as disclosed in note 8 to the annual financial statements were necessary.

4. The municipality did not recognise impairment on work in progress in line with GRAP 21, *Impairment of non-cash generating assets*. I identified assets with indicators of impairment that were not included in the impairment calculation of work in progress. I was unable to determine the full extent of the impairment loss as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to the work in progress balance of R2 573 679 712 (2022: R1 908 100 726) as disclosed in note 8 to the financial statements were necessary.

Receivables from exchange transactions

5. An assessment of individually significant categories of debtors was not properly performed at the end of the financial year to determine if there was objective evidence that debtors from

exchange transactions are impaired. In addition the provision for bad debts for long outstanding debtors was not properly calculated, in accordance with GRAP 104, *Financial instruments*. An impairment amount of R70 820 152 calculated and included in the debt impairment amount of R434 502 442 as disclosed in note 32 to the financial statements was unreasonable. Consequently, the receivables from exchange balance of R122 849 288 (2022: R286 794 629) as disclosed in note 4 to the financial statements was misstated by the same amount. Additionally, this has an impact on the surplus for the year.

6. I was unable to obtain sufficient appropriate audit evidence that the gross consumer debtors for water and sanitation related transactions for the current and previous was properly accounted for, due to the status of the accounting records. I was unable to confirm whether all the gross consumer debtors for water and sanitation, were correctly recorded by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the gross consumer debtors for water and sanitation stated at R2 128 999 380 (2022: R1 762 836 515) in note 4 to the financial statements.

Payables from exchange transactions

7. The municipality did not have adequate internal control systems to account for trade payables from exchange transactions as required by GRAP 1, *Presentation of financial statements*. The municipality did not present non-current liabilities for the portion that will be payable to the Department of Water and Sanitation (DWS) and Lepelle Northern Water (LNW) creditors beyond 12 months. Consequently, the LNW and DWS balances stated at R450 474 201 and R413 767 089 respectively in note 13.5 to the financial statements, were misstated as the non-current portions were not separately presented and disclosed.

8. The municipality did not have adequate internal control systems to account for trade payables from exchange transactions as required by GRAP 1, *Presentation of financial statements*. I identified misstatements on the opening balances of trade creditors amounting to R48 561 134 as well as a misstatement on the opening balance of the payable for the Department of Water & Sanitation (DWS) amounting R48 561 167. I was unable to confirm the balances by alternative means. Consequently, I was unable to determine whether any adjustments to the opening balances of trade creditors and DWS stated at R186 056 950 and R437 452 714 respectively in note 13 to the financial statements.

9. I was unable to determine whether trade payables arising from local municipalities relating to water and sanitation were correctly recorded due to the status of the records. I could not confirm the balances by alternative means. Consequently, I was unable to determine whether any adjustments to the payables balances stated at R1 744 669 967 (2022: R1 710 999 346) in note 13 to the financial statements were necessary. Additionally, there is a resultant impact on the accumulated surplus.

VAT receivables

10. I was unable to obtain sufficient appropriate audit evidence for VAT balances due to the municipality not implementing adequate internal control systems for recording and accounting for VAT. I identified VAT output on consumer debtors amounting to R45 833 469 that was incorrectly accounted for. The full extent of the misstatement on VAT could not be quantified as it was impracticable to do so. Consequently, I was unable to determine the extent of

adjustments necessary to the VAT balance. I could not confirm the VAT balance by alternative means. I was unable to determine whether any further adjustments were necessary to VAT receivables stated at R59 222 219 (2022: R14 124 807) in note 6 to the financial statements.

11. The municipality did not present VAT balances as required by GRAP 1, *Presentation of financial statements*. I identified a statutory VAT receivable amount of R67 849 352 which was not correctly presented and disclosed in note 6 to the financial statements. Furthermore, the municipality offset the accrual VAT payable with the VAT amount due from SARS. Consequently, the VAT amount stated at R59 222 219 (2022: R14 124 807) was not presented in line with the requirements of GRAP 1, *Presentation of financial statements.*

Revenue from exchange transactions

12. I was unable to obtain sufficient appropriate audit evidence for revenue from water and sanitation due to the status of record keeping. I identified unexplained differences between the municipality`s financial statements and underlying records from the local municipalities (Ba-Phalaborwa and Greater Tzaneen local municipalities). I was unable to confirm the revenue by alternative means. I was unable to determine whether any further adjustments were necessary to revenue from exchange transactions stated at R239 259 968 (2022: R230 602 905) on note 19 to the financial statements.

13. The municipality did not bill customers in line with the approved tariffs, as I identified differences on amounts billed to customers for water and sanitation. I was unable to determine the full extent of the understatement as it was impractical to do so. I was unable to determine whether any further adjustments were necessary to revenue from exchange transactions stated at R239 259 968 (2022: R230 602 905) on note 19 to the financial statements. Additionally, there is an impact on the receivables from exchange transactions stated at R122 849 288 (2022: R286 794 629) as disclosed in note 4 to the financial statements and surplus for the year.

Revenue from non-exchange transactions

14. The municipality did not recognise revenue from non-exchange transactions in line with the requirements of GRAP 23, *Revenue from non-exchange transactions*. I identified conditional grants transactions amounting to R52 005 619 that were not recognised on the accrual basis of accounting. Consequently, revenue from non-exchange transactions stated at R773 945 604 (2023: R463 647 200) in note 23 to the financial statements is misstated. Additionally, there is an impact on the unspent conditional grants and receipts amount stated at R106 936 475 (2022: R146 712 992) in note 17 to the financial statements.

Expenditure

15. The municipality did not recognise expenditure in terms of GRAP 1, *Presentation of financial statements*. I identified items of property, plant and equipment amounting to R19 524 633 that were expensed under repairs and maintenance and prior year misstatements amounting to R53 861 510 expensed under general expenses instead of being capitalised as property, plant and equipment in terms of GRAP 17*, Property, plant and equipment.* Consequently, repairs and maintenance stated at R61 890 656 (2022: R129 643 993) in note 38 to the financial

statements is overstated by the same amount. There is a resultant impact on property, plant and equipment disclosed in note 8 to the financial statements and surplus for the period.

16. The municipality did not have adequate internal control systems to account for transactions in the correct financial year as required by GRAP 1, *Presentation of financial statements*. I identified various expenditure transactions amounting to R26 995 105 that were not correctly accounted for in the 2022-23 period. Consequently, total expenditure stated at R1 926 109 256 (2022: R1 585 846 708) in the statement of financial performance are understated by the same amount. Additionally, there is an impact on the surplus for the year and the accumulated surplus.

Commitments

17. The municipality did not maintain adequate internal control systems for recording and accounting for commitments. I identified differences amounting to R41 620 313 between commitments as per the commitments register and the supporting records. Consequently, commitments stated at R1 675 558 605 (2022: R716 240 622) in note 44 to the financial statements are understated by the same amount.

18. The municipality did not maintain adequate internal control systems for recording and accounting for commitments. I identified expired contracts that were still accounted for in the commitments register amounting to R24 286 827. Consequently, commitments stated at R1 675 558 605 (2022: R716 240 622) in note 44 to the financial statements are overstated by the same amount.

Net cash flows from operating activities

19. Net cash flows from operating activities were not correctly prepared and disclosed as required by GRAP 2, *Cash flow statements.* This was due to multiple errors in determining cash flows from operating activities. I was not able to determine the full extent of the errors in the net cash flows from operating activities, as it was impracticable to do so. Consequently, I was unable to determine whether any adjustments to cash flows from operating activities as stated at R687 683 666 (2022: R463 592 668) in the financial statements were necessary.

Water distribution losses

20. The municipality did not calculate water distribution losses and disclose in accordance with the requirements of GRAP 1, *Presentation of financial statements* and section 125(2)(d) of the MFMA. The calculations only took into account water losses at the purification plant and excluded distribution losses from the reservoir to the final consumers. I was not able to determine the full extent of the error as it was impractical to do so. Consequently, I was unable to determine whether any adjustments to water distribution losses stated at 2 885 224m^3 (2022: 4 689 786m^3) in note 33 to the financial statements were necessary.

Context for opinion

21. 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.

22. 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.

23. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

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

Restatement of corresponding figures

25. As disclosed in note 47 to the financial statements, some corresponding figures for 30 June 2022 were restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2023.

Significant uncertainties

26. With reference to note 45 of the financial statements, the municipality is currently involved in litigation with various service providers and third parties. The ultimate outcome of these matters could not be determined and no provision for any liability that may result has been made in the financial statements.

Other matters

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

Unaudited supplementary schedules

28. The supplementary schedule set out on pages xx to xx does not form part of the financial statement and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

29. 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.

Responsibilities of the accounting officer for the financial statements

30. 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 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.

31. 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

32. 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.

33. 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

34. 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 area presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.

35. I selected the following key performance area presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected a key performance area that measures the municipality's performance on its primary mandated functions and that is of significant national, community or public interest.

Key Performance Area	Page numbers	Purpose
KPA 2 – Basic service delivery	[XX]	To accelerate sustainable infrastructure and maintenance in all sectors of development. To have integrated infrastructure development. To improve community safety, health and social well-being

36. I evaluated the reported performance information for the selected key performance area 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.

37. 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.

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

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

KPA 2 – Basic service delivery

Number in kilometres of gravel roads graded

40. An achievement of 2 107,49 km was reported against a target of 2 000 km. However, the audit evidence did not support this achievement. I could not determine the actual achievement, but I estimated it to be materially less than reported. Consequently, it is likely that the achievement against the target was lower than reported.

Number of by-laws gazetted by 30 June 2023

41. An achievement of two was reported against a target of five. However, the audit evidence showed the actual achievement to be zero. Consequently, the target was not achieved.

Other matters

42. I draw attention to the matters below.

Achievement of planned targets

43. 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.

44. The municipality plays a key role in delivering services to South Africans. 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 2 – Basic service delivery

Targets achieved: 38%

Budget spent: 101%

Key service delivery indicator not achieved	Planned target	Reported achievement
Number of households with access to water	6 000	1 355
Number of households with access to sanitation	5 461	4 902

Material misstatements

45. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were in the reported performance information for KPA 2 – basic service delivery. Management did not correct all of the misstatements and I reported material findings in this regard.

Report on compliance with legislation

46. 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.

47. 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.

48. 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.

49. The material findings on compliance with the selected legislative requirements, presented per compliance theme, are as follows:

Annual financial statements

50. 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 non-current assets, current assets, liabilities, revenue, expenditure, and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

51. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

52. Reasonable steps were not taken to ensure that the municipality implements and maintains an effective system of expenditure control, including procedures for the approval and payment of funds, as required by section 65(2)(a) of the MFMA.

53. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The amount of R51 694 817, as disclosed in note 54, is not complete as management was still in the process of quantifying the full extent of the irregular expenditure. The majority of the disclosed irregular expenditure was caused by incorrect disqualification of bidders.

54. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R40 946 021, as disclosed in note 53 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 penalties due to non-payment of bulk water purchases from the DWS and LNW.

55. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R588 657 734, as disclosed in note 52 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed unauthorised expenditure was caused by spending in excess of the approved limits in several votes.

Revenue management

56. An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA.

57. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.

Asset management

58. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Consequence management

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

60. Irregular, fruitless and wasteful expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Strategic planning and performance management

61. The performance management system and related controls were inadequate as it did not describe how the performance monitoring, measurement and review processes should be conducted, organised and managed, as required by municipal planning and performance management regulation 7(1).

Utilisation of conditional grants

62. The Water Services Infrastructure Grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of the DoRA.

63. The Regional Bulk Infrastructure Grant was not spent for its intended purposes in accordance with the applicable grant framework, as required by section 16(1) of the DoRA.

Procurement and contract management

64. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements as the required information for some of the awards were not submitted. A similar limitation was also reported in the prior year.

65. Some of the 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). Similar non-compliance was also reported in the prior year.

66. Sufficient appropriate audit evidence could not be obtained that quotations were only accepted from bidders whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM regulation 43. Similar non-compliance was also reported in the prior year.

67. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to bidders based on points given for legislative requirement that were stipulated in the original

invitation for bidding, as required by SCM regulations 21(b) and 28(1)(a)(i) and Preferential Procurement Regulations. Similar non-compliance was also reported in the prior year.

68. Sufficient appropriate audit evidence could not be obtained that contracts were awarded through a competitive bidding process that were adjudicated by the bid adjudication committee as required by SCM Regulations 29(1) (a) and (b) and Preferential Procurement Regulations. Similar non-compliance was also reported in the prior year.

69. Sufficient appropriate audit evidence could not be obtained that councillors of the municipality participated in committees evaluating or approving tenders OR attended meetings of committees evaluating or approving tenders, in contravention of section 117 of the MFMA. Similar non-compliance was also reported in the prior year.

70. Sufficient appropriate audit evidence could not be obtained that the accounting officer ratified the decision of bid adjudication committee of awarding contracts to bidders other than those recommended by the bid evaluation committee as required by SCM Regulation 29(5)(b). Similar non-compliance was also reported in the prior year.

71. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(1)(a) and (c). Similar non-compliance was also reported in the prior year.

Other information in the annual report

72. 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 the selected key performance area presented in the annual performance report that have been specifically reported on in this auditor's report.

73. 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.

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

75. 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

76. 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.

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

78. The basic accounting and internal control disciplines of daily and monthly reconciliation of transactions was not adequately implemented and monitored.

79. The audit action plan was not adequately designed to address the root causes of the findings which led to the disclaimer of opinion in the prior years, as we identified material misstatements in the submitted annual financial statements and the annual performance report.

80. The accounting officer and management did not effectively manage and monitor the water and sanitation functions delegated to the local municipalities. The municipality does not timeously update transactions from local municipalities, which resulted in material misstatements.

81. The financial statements and the annual performance report were not reviewed for accuracy and completeness by the accounting officer, this resulted in numerous misstatements being identified although some corrected.

82. The financial system does not have unique identifiers for bank and payment reconciliations which exposes the municipality to possible duplicate payments and an increased fraud risk.

83. Measures put in place for the preparation, review and approval of the annual financial statements and annual performance report are inadequate as the annual financial statements and annual performance report submitted for audit contained misstatements that were not detected and rectified prior to submission of the report for audit.

84. There was no proper implementation of controls over daily and monthly processing and reconciling of kilometres of gravel roads graded.

85. The accounting officer did not exercise his oversight responsibilities regarding compliance and related internal controls to ensure that all instances of unauthorised, irregular and fruitless and wasteful expenditure are investigated to determine if any person is liable for the expenditure.

86. The accounting officer did not implement effective controls to ensure that compliance with the applicable laws and regulations is reviewed and monitored at all times.

Material irregularities

87. 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.

Material irregularities identified during the audit

88. The material irregularities identified are as follows:

Payment for duplication of work

89. During the audit of the Mametja-Sekororo Regional Water Scheme (RWS) project in the 2021-22 financial year, we noted that there was a duplication of a significant portion of the works completed by contractors. The specific part of the RWS audited, related to the "mechanical and electrical items component" of the scheme.

90. The first contractor appointed on the project was appointed at a contract amount of R19 201 350, for a period of four months commencing on 1 October 2015. The first contractor was officially terminated due to poor performance and breach of contract in June 2019; after having incurred expenditure totaling R12 992 201 on the project. However, the project was not complete at the time. The municipality appointed a second contractor for a revised contract amount of R27 375 737 with a commencement date of 21 May 2018. The mechanical and electrical works on the scheme were eventually completed on 22 December 2020 after additional expenditure of R25 437 749 was incurred by the second contractor.

91. The relevant officials and senior managers involved on the project did not thoroughly review invoices and payment certificates issued to ensure that items claimed by the first and second contractors are not duplicated. This resulted in the municipality double paying for some of the goods and services said to be rendered by the two contractors.

92. The above resulted in non-compliance with section 78(1)(b) of the MFMA, which states that "each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that the financial and other resources of the municipality are utilised effectively, efficiently, economically and transparently".

93. The above non-compliance is likely to result in a material financial loss for the municipality.

94. The accounting officer was notified of the material irregularity on 9 May 2023. The following actions have been taken to resolve the material irregularity:

    - The accounting officer appointed a law firm to investigate the matter on 9 May 2023. The investigation was expected to be completed by 30 October 2023, however it was still in progress by the date of this report with the new completion date unknown.

95. The accounting officer plans to take appropriate steps based on the outcome of this investigation by ensuring that the recommendations from the investigation are implemented.

96. I will follow up on the investigation and the implementation of the planned actions during my next audit.

Status of previously reported material irregularities

Failure to keep full and proper records of the financial affairs of the municipality resulting in ineffective use of financial reporting consultants.

97. The municipality appointed three financial reporting consultants to prepare the 2020-21 annual financial statements. The consultants were appointed for the preparation of the annual financial statements, asset management as well as tax services.

98. The municipality failed to keep full and proper records required to produce credible and GRAP compliant financial statements. This resulted in the municipality not being able to provide the appointed financial reporting consultants with complete, accurate and reliable information as required by section 62(1)(b) of the MFMA to enable them to compile GRAP compliant financial statements. This failure of the municipality to furnish the financial reporting consultants with the necessary records resulted in the municipality obtaining a disclaimed audit opinion on the 2020-21 annual financial statements.

99. The non-compliance is likely to result in a material financial loss for the municipality as the equivalent value of the amounts paid to the consultants could not be obtained by the municipality.

100. The accounting officer was notified of the material irregularity on 21 November 2022. The following actions were taken to resolve the material irregularity:

- All deputy managers and all other employees must have signed performance agreements by 30 June 2023. Action was implemented.

- VAT 201 returns must be submitted internally by the deputy manager expenditure by 30 November 2023. Action was implemented and the returns are now prepared in-house.

- To provide the necessary skills through training. Personal development plans must be developed by 20 April 2023. Action was implemented.

- Steps will be taken to recover any financial loss and prevent any further loss by 30 June 2023. Actions that were planned by the accounting officer still needs to be implemented, with an expected completion date on or before 30 June 2024.

101. I will follow up on the implementation of the planned actions on my next audit.

Auditor-General

Polokwane

11 December 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 key performance area 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 - 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), 32(6)(a), Sections 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), 62(1)(f)(ii), Sections 62(1)(f)(iii), 63(1)(a), 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), 72(1)(a)(ii), 112(1)(j), Sections 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2), 126(1)(a), 126(1)(b), Sections 127(2), 127(5)(a)(i), 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)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulation 71(1), 71(2), 72
MFMA: Municipal Investment Regulations, 2005	Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations 5(4), 6(8)(a), 6(8)(b), 10(1)
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), 17(1)(b), Regulations 17(1)(c). 19(a), 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), 29(5)(a)(ii), 29(5)(b)(ii), Regulations 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), Regulations 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Sections 11(6)(b), 12(5), 16(1); 16(3)

Legislation	Sections or regulations
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations, 2004	Regulations 17, 25(7A)
Municipal Property Rates Act 6 of 2004	Section 3(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections 2(1)(a), 2(1)(f)
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), 7(1), Regulations 7(2), 7(3), 7(6), 7(8), 8(2), 8(5), 9(1), 10(1), 10(2), 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 27(1), 29(1)(b)(ii), 29(2)(a), Sections 29(2)(c), 34(a), 34(b), 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, Sections 43(2), 56(a), 57(2)(a), 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), Sections 67(1)(d),74(1), 93J(1), 96(b) Parent municipality with ME: Sections 93B(a), 93B(b) Parent municipality with shared control of ME: Sections 93C(a)(iv), 93C(a)(v)
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, 9(1)(a), 10(a), Regulations 12(1), 15(1)(a)(i), 15(1)(a)(ii)
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)
MSA: Regulations on Appointment and Conditions of Employment of Senior Managers, 2014	Regulations 17(2), 36(1)(a)